AUTHENTICATED
U.S. GOVERNMENT
INFORMATION
GPO

114TH CONGRESS
2d Session
HOUSE OF REPRESENTATIVES
REPORT
114–477

FINANCIAL INSTITUTION BANKRUPTCY ACT OF 2016

MARCH 23, 2016.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. GOODLATTE, from the Committee on the Judiciary, submitted the following

R E P O R T

[To accompany H.R. 2947]

[Including cost estimate of the Congressional Budget Office]

The Committee on the Judiciary, to whom was referred the bill (H.R. 2947) to amend title 11 of the United States Code in order to facilitate the resolution of an insolvent financial institution in bankruptcy, having considered the same, reports favorably thereon with an amendment and recommends that the bill as amended do pass.

CONTENTS

	Page
The Amendment	1
Purpose and Summary	9
Background and Need for the Legislation	9
Hearings	16
Committee Consideration	18
Committee Votes	18
Committee Oversight Findings	19
New Budget Authority and Tax Expenditures	19
Congressional Budget Office Cost Estimate	19
Duplication of Federal Programs	22
Disclosure of Directed Rule Makings	22
Performance Goals and Objectives	22
Advisory on Earmarks	22
Section-by-Section Analysis	22
Changes in Existing Law Made by the Bill, as Reported	28

The Amendment

The amendment is as follows:
Strike all after the enacting clause and insert the following:

SECTION 1. SHORT TITLE.

This Act may be cited as the "Financial Institution Bankruptcy Act of 2016".

SEC. 2. GENERAL PROVISIONS RELATING TO COVERED FINANCIAL CORPORATIONS.

(a) DEFINITION.—Section 101 of title 11, United States Code, is amended by inserting the following after paragraph (9):

"(9A) The term 'covered financial corporation' means any corporation incorporated or organized under any Federal or State law, other than a stockbroker, a commodity broker, or an entity of the kind specified in paragraph (2) or (3) of section 109(b), that is—

"(A) a bank holding company, as defined in section 2(a) of the Bank Holding Company Act of 1956; or

"(B) a corporation that exists for the primary purpose of owning, controlling and financing its subsidiaries, that has total consolidated assets of $50,000,000,000 or greater, and for which, in its most recently completed fiscal year—

"(i) annual gross revenues derived by the corporation and all of its subsidiaries from activities that are financial in nature (as defined in section 4(k) of the Bank Holding Company Act of 1956) and, if applicable, from the ownership or control of one or more insured depository institutions, represents 85 percent or more of the consolidated annual gross revenues of the corporation; or

"(ii) the consolidated assets of the corporation and all of its subsidiaries related to activities that are financial in nature (as defined in section 4(k) of the Bank Holding Company Act of 1956) and, if applicable, related to the ownership or control of one or more insured depository institutions, represents 85 percent or more of the consolidated assets of the corporation.".

(b) APPLICABILITY OF CHAPTERS.—Section 103 of title 11, United States Code, is amended by adding at the end the following:

"(l) Subchapter V of chapter 11 of this title applies only in a case under chapter 11 concerning a covered financial corporation.".

(c) WHO MAY BE A DEBTOR.—Section 109 of title 11, United States Code, is amended—

(1) in subsection (b)—

(A) in paragraph (2), by striking "or" at the end;

(B) in paragraph (3)(B), by striking the period at the end and inserting "; or"; and

(C) by adding at the end the following:

"(4) a covered financial corporation."; and

(2) in subsection (d)—

(A) by striking "and" before "an uninsured State member bank";

(B) by striking "or" before "a corporation"; and

(C) by inserting ", or a covered financial corporation" after "Federal Deposit Insurance Corporation Improvement Act of 1991".

(d) CONVERSION TO CHAPTER 7.—Section 1112 of title 11, United States Code, is amended by adding at the end the following:

"(g) Notwithstanding section 109(b), the court may convert a case under subchapter V to a case under chapter 7 if—

"(1) a transfer approved under section 1185 has been consummated;

"(2) the court has ordered the appointment of a special trustee under section 1186; and

"(3) the court finds, after notice and a hearing, that conversion is in the best interest of the creditors and the estate.".

(e)(1) Section 726(a)(1) of title 11, United States Code, is amended by inserting after "first," the following: "in payment of any unpaid fees, costs, and expenses of a special trustee appointed under section 1186, and then".

(2) Section 1129(a) of title 11, United States Code, is amended by inserting after paragraph (16) the following:

"(17) In a case under subchapter V, all payable fees, costs, and expenses of the special trustee have been paid or the plan provides for the payment of all such fees, costs, and expenses on the effective date of the plan.

"(18) In a case under subchapter V, confirmation of the plan is not likely to cause serious adverse effects on financial stability in the United States.".

(f) Section 322(b)(2) of title 11, United States Code, is amended by striking "The" and inserting "In cases under subchapter V, the United States trustee shall recommend to the court, and in all other cases, the".

SEC. 3. LIQUIDATION, REORGANIZATION, OR RECAPITALIZATION OF A COVERED FINANCIAL CORPORATION.

Chapter 11 of title 11, United States Code, is amended by adding at the end the following:

"SUBCHAPTER V—LIQUIDATION, REORGANIZATION, OR RECAPITALIZATION OF A COVERED FINANCIAL CORPORATION

"§ 1181. Inapplicability of other sections

"Sections 303 and 321(c) do not apply in a case under this subchapter concerning a covered financial corporation. Section 365 does not apply to a transfer under section 1185, 1187, or 1188.

"§ 1182. Definitions for this subchapter

"In this subchapter, the following definitions shall apply:

"(1) The term 'Board' means the Board of Governors of the Federal Reserve System.

"(2) The term 'bridge company' means a newly formed corporation to which property of the estate may be transferred under section 1185(a) and the equity securities of which may be transferred to a special trustee under section 1186(a).

"(3) The term 'capital structure debt' means all unsecured debt of the debtor for borrowed money for which the debtor is the primary obligor, other than a qualified financial contract and other than debt secured by a lien on property of the estate that is to be transferred to a bridge company pursuant to an order of the court under section 1185(a).

"(4) The term 'contractual right' means a contractual right of a kind defined in section 555, 556, 559, 560, or 561.

"(5) The term 'qualified financial contract' means any contract of a kind defined in paragraph (25), (38A), (47), or (53B) of section 101, section 741(7), or paragraph (4), (5), (11), or (13) of section 761.

"(6) The term 'special trustee' means the trustee of a trust formed under section 1186(a)(1).

"§ 1183. Commencement of a case concerning a covered financial corporation

"(a) A case under this subchapter concerning a covered financial corporation may be commenced by the filing of a petition with the court by the debtor under section 301 only if the debtor states to the best of its knowledge under penalty of perjury in the petition that it is a covered financial corporation.

"(b) The commencement of a case under subsection (a) constitutes an order for relief under this subchapter.

"(c) The members of the board of directors (or body performing similar functions) of a covered financial company shall have no liability to shareholders, creditors, or other parties in interest for a good faith filing of a petition to commence a case under this subchapter, or for any reasonable action taken in good faith in contemplation of or in connection with such a petition or a transfer under section 1185 or section 1186, whether prior to or after commencement of the case.

"(d) Counsel to the debtor shall provide, to the greatest extent practicable without disclosing the identity of the potential debtor, sufficient confidential notice to the chief judge of the court of appeals for the circuit embracing the district in which such counsel intends to file a petition to commence a case under this subchapter regarding the potential commencement of such case. The chief judge of such court shall randomly assign to preside over such case a bankruptcy judge selected from among the bankruptcy judges designated by the Chief Justice of the United States under section 298 of title 28.

"§ 1184. Regulators

"The Board, the Securities Exchange Commission, the Office of the Comptroller of the Currency of the Department of the Treasury, the Commodity Futures Trading Commission, and the Federal Deposit Insurance Corporation may raise and may appear and be heard on any issue in any case or proceeding under this subchapter.

"§ 1185. Special transfer of property of the estate

"(a) On request of the trustee, and after notice and a hearing that shall occur not less than 24 hours after the order for relief, the court may order a transfer under this section of property of the estate, and the assignment of executory contracts, unexpired leases, and qualified financial contracts of the debtor, to a bridge company. Upon the entry of an order approving such transfer, any property transferred, and any executory contracts, unexpired leases, and qualified financial contracts assigned

under such order shall no longer be property of the estate. Except as provided under this section, the provisions of section 363 shall apply to a transfer and assignment under this section.

"(b) Unless the court orders otherwise, notice of a request for an order under subsection (a) shall consist of electronic or telephonic notice of not less than 24 hours to—

"(1) the debtor;

"(2) the holders of the 20 largest secured claims against the debtor;

"(3) the holders of the 20 largest unsecured claims against the debtor;

"(4) counterparties to any debt, executory contract, unexpired lease, and qualified financial contract requested to be transferred under this section;

"(5) the Board;

"(6) the Federal Deposit Insurance Corporation;

"(7) the Secretary of the Treasury and the Office of the Comptroller of the Currency of the Treasury;

"(8) the Commodity Futures Trading Commission;

"(9) the Securities and Exchange Commission;

"(10) the United States trustee or bankruptcy administrator; and

"(11) each primary financial regulatory agency, as defined in section 2(12) of the Dodd-Frank Wall Street Reform and Consumer Protection Act, with respect to any affiliate the equity securities of which are proposed to be transferred under this section.

"(c) The court may not order a transfer under this section unless the court determines, based upon a preponderance of the evidence, that—

"(1) the transfer under this section is necessary to prevent serious adverse effects on financial stability in the United States;

"(2) the transfer does not provide for the assumption of any capital structure debt by the bridge company;

"(3) the transfer does not provide for the transfer to the bridge company of any property of the estate that is subject to a lien securing a debt, executory contract, unexpired lease or agreement (including a qualified financial contract) of the debtor unless—

"(A)(i) the bridge company assumes such debt, executory contract, unexpired lease or agreement (including a qualified financial contract), including any claims arising in respect thereof that would not be allowed secured claims under section 506(a)(1) and after giving effect to such transfer, such property remains subject to the lien securing such debt, executory contract, unexpired lease or agreement (including a qualified financial contract); and

"(ii) the court has determined that assumption of such debt, executory contract, unexpired lease or agreement (including a qualified financial contract) by the bridge company is in the best interests of the estate; or

"(B) such property is being transferred to the bridge company in accordance with the provisions of section 363;

"(4) the transfer does not provide for the assumption by the bridge company of any debt, executory contract, unexpired lease or agreement (including a qualified financial contract) of the debtor secured by a lien on property of the estate unless the transfer provides for such property to be transferred to the bridge company in accordance with paragraph (3)(A) of this subsection;

"(5) the transfer does not provide for the transfer of the equity of the debtor;

"(6) the trustee has demonstrated that the bridge company is not likely to fail to meet the obligations of any debt, executory contract, qualified financial contract, or unexpired lease assumed and assigned to the bridge company;

"(7) the transfer provides for the transfer to a special trustee all of the equity securities in the bridge company and appointment of a special trustee in accordance with section 1186;

"(8) after giving effect to the transfer, adequate provision has been made for the fees, costs, and expenses of the estate and special trustee; and

"(9) the bridge company will have governing documents, and initial directors and senior officers, that are in the best interest of creditors and the estate.

"(d) Immediately before a transfer under this section, the bridge company that is the recipient of the transfer shall—

"(1) not have any property, executory contracts, unexpired leases, qualified financial contracts, or debts, other than any property acquired or executory contracts, unexpired leases, or debts assumed when acting as a transferee of a transfer under this section; and

"(2) have equity securities that are property of the estate, which may be sold or distributed in accordance with this title.

"§ 1186. Special trustee

"(a)(1) An order approving a transfer under section 1185 shall require the trustee to transfer to a qualified and independent special trustee, who is appointed by the court, all of the equity securities in the bridge company that is the recipient of a transfer under section 1185 to hold in trust for the sole benefit of the estate, subject to satisfaction of the special trustee's fees, costs, and expenses. The trust of which the special trustee is the trustee shall be a newly formed trust governed by a trust agreement approved by the court as in the best interests of the estate, and shall exist for the sole purpose of holding and administering, and shall be permitted to dispose of, the equity securities of the bridge company in accordance with the trust agreement.

"(2) In connection with the hearing to approve a transfer under section 1185, the trustee shall confirm to the court that the Board has been consulted regarding the identity of the proposed special trustee and advise the court of the results of such consultation.

"(b) The trust agreement governing the trust shall provide—

"(1) for the payment of the fees, costs, expenses, and indemnities of the special trustee from the assets of the debtor's estate;

"(2) that the special trustee provide—

"(A) quarterly reporting to the estate, which shall be filed with the court; and

"(B) information about the bridge company reasonably requested by a party in interest to prepare a disclosure statement for a plan providing for distribution of any securities of the bridge company if such information is necessary to prepare such disclosure statement;

"(3) that for as long as the equity securities of the bridge company are held by the trust, the special trustee shall file a notice with the court in connection with—

"(A) any change in a director or senior officer of the bridge company;

"(B) any modification to the governing documents of the bridge company; and

"(C) any material corporate action of the bridge company, including—

"(i) recapitalization;

"(ii) a material borrowing;

"(iii) termination of an intercompany debt or guarantee;

"(iv) a transfer of a substantial portion of the assets of the bridge company; or

"(v) the issuance or sale of any securities of the bridge company;

"(4) that any sale of any equity securities of the bridge company shall not be consummated until the special trustee consults with the Federal Deposit Insurance Corporation and the Board regarding such sale and discloses the results of such consultation with the court;

"(5) that, subject to reserves for payments permitted under paragraph (1) provided for in the trust agreement, the proceeds of the sale of any equity securities of the bridge company by the special trustee be held in trust for the benefit of or transferred to the estate;

"(6) the process and guidelines for the replacement of the special trustee; and

"(7) that the property held in trust by the special trustee is subject to distribution in accordance with subsection (c).

"(c)(1) The special trustee shall distribute the assets held in trust—

"(A) if the court confirms a plan in the case, in accordance with the plan on the effective date of the plan; or

"(B) if the case is converted to a case under chapter 7, as ordered by the court.

"(2) As soon as practicable after a final distribution under paragraph (1), the office of the special trustee shall terminate, except as may be necessary to wind up and conclude the business and financial affairs of the trust.

"(d) After a transfer to the special trustee under this section, the special trustee shall be subject only to applicable nonbankruptcy law, and the actions and conduct of the special trustee shall no longer be subject to approval by the court in the case under this subchapter.

"§ 1187. Temporary and supplemental automatic stay; assumed debt

"(a)(1) A petition filed under section 1183 operates as a stay, applicable to all entities, of the termination, acceleration, or modification of any debt, contract, lease, or agreement of the kind described in paragraph (2), or of any right or obligation under any such debt, contract, lease, or agreement, solely because of—

"(A) a default by the debtor under any such debt, contract, lease, or agreement; or

"(B) a provision in such debt, contract, lease, or agreement, or in applicable nonbankruptcy law, that is conditioned on—

"(i) the insolvency or financial condition of the debtor at any time before the closing of the case;

"(ii) the commencement of a case under this title concerning the debtor;

"(iii) the appointment of or taking possession by a trustee in a case under this title concerning the debtor or by a custodian before the commencement of the case; or

"(iv) a credit rating agency rating, or absence or withdrawal of a credit rating agency rating—

"(I) of the debtor at any time after the commencement of the case;

"(II) of an affiliate during the period from the commencement of the case until 48 hours after such order is entered;

"(III) of the bridge company while the trustee or the special trustee is a direct or indirect beneficial holder of more than 50 percent of the equity securities of—

"(aa) the bridge company; or

"(bb) the affiliate, if all of the direct or indirect interests in the affiliate that are property of the estate are transferred under section 1185; or

"(IV) of an affiliate while the trustee or the special trustee is a direct or indirect beneficial holder of more than 50 percent of the equity securities of—

"(aa) the bridge company; or

"(bb) the affiliate, if all of the direct or indirect interests in the affiliate that are property of the estate are transferred under section 1185.

"(2) A debt, contract, lease, or agreement described in this paragraph is—

"(A) any debt (other than capital structure debt), executory contract, or unexpired lease of the debtor (other than a qualified financial contract);

"(B) any agreement under which the debtor issued or is obligated for debt (other than capital structure debt);

"(C) any debt, executory contract, or unexpired lease of an affiliate (other than a qualified financial contract); or

"(D) any agreement under which an affiliate issued or is obligated for debt.

"(3) The stay under this subsection terminates—

"(A) for the benefit of the debtor, upon the earliest of—

"(i) 48 hours after the commencement of the case;

"(ii) assumption of the debt, contract, lease, or agreement by the bridge company under an order authorizing a transfer under section 1185;

"(iii) a final order of the court denying the request for a transfer under section 1185; or

"(iv) the time the case is dismissed; and

"(B) for the benefit of an affiliate, upon the earliest of—

"(i) the entry of an order authorizing a transfer under section 1185 in which the direct or indirect interests in the affiliate that are property of the estate are not transferred under section 1185;

"(ii) a final order by the court denying the request for a transfer under section 1185;

"(iii) 48 hours after the commencement of the case if the court has not ordered a transfer under section 1185; or

"(iv) the time the case is dismissed.

"(4) Subsections (d), (e), (f), and (g) of section 362 apply to a stay under this subsection.

"(b) A debt, executory contract (other than a qualified financial contract), or unexpired lease of the debtor, or an agreement under which the debtor has issued or is obligated for any debt, may be assumed by a bridge company in a transfer under section 1185 notwithstanding any provision in an agreement or in applicable nonbankruptcy law that—

"(1) prohibits, restricts, or conditions the assignment of the debt, contract, lease, or agreement; or

"(2) accelerates, terminates, or modifies, or permits a party other than the debtor to terminate or modify, the debt, contract, lease, or agreement on account of—

"(A) the assignment of the debt, contract, lease, or agreement; or

"(B) a change in control of any party to the debt, contract, lease, or agreement.

"(c)(1) A debt, contract, lease, or agreement of the kind described in subparagraph (A) or (B) of subsection (a)(2) may not be accelerated, terminated, or modified, and

any right or obligation under such debt, contract, lease, or agreement may not be accelerated, terminated, or modified, as to the bridge company solely because of a provision in the debt, contract, lease, or agreement or in applicable nonbankruptcy law—

"(A) of the kind described in subsection (a)(1)(B) as applied to the debtor;

"(B) that prohibits, restricts, or conditions the assignment of the debt, contract, lease, or agreement; or

"(C) that accelerates, terminates, or modifies, or permits a party other than the debtor to terminate or modify, the debt, contract, lease or agreement on account of—

"(i) the assignment of the debt, contract, lease, or agreement; or

"(ii) a change in control of any party to the debt, contract, lease, or agreement.

"(2) If there is a default by the debtor under a provision other than the kind described in paragraph (1) in a debt, contract, lease or agreement of the kind described in subparagraph (A) or (B) of subsection (a)(2), the bridge company may assume such debt, contract, lease, or agreement only if the bridge company—

"(A) shall cure the default;

"(B) compensates, or provides adequate assurance in connection with a transfer under section 1185 that the bridge company will promptly compensate, a party other than the debtor to the debt, contract, lease, or agreement, for any actual pecuniary loss to the party resulting from the default; and

"(C) provides adequate assurance in connection with a transfer under section 1185 of future performance under the debt, contract, lease, or agreement, as determined by the court under section 1185(c)(4).

"§ 1188. Treatment of qualified financial contracts and affiliate contracts

"(a) Notwithstanding sections 362(b)(6), 362(b)(7), 362(b)(17), 362(b)(27), 362(o), 555, 556, 559, 560, and 561, a petition filed under section 1183 operates as a stay, during the period specified in section 1187(a)(3)(A), applicable to all entities, of the exercise of a contractual right—

"(1) to cause the modification, liquidation, termination, or acceleration of a qualified financial contract of the debtor or an affiliate;

"(2) to offset or net out any termination value, payment amount, or other transfer obligation arising under or in connection with a qualified financial contract of the debtor or an affiliate; or

"(3) under any security agreement or arrangement or other credit enhancement forming a part of or related to a qualified financial contract of the debtor or an affiliate.

"(b)(1) During the period specified in section 1187(a)(3)(A), the trustee or the affiliate shall perform all payment and delivery obligations under such qualified financial contract of the debtor or the affiliate, as the case may be, that become due after the commencement of the case. The stay provided under subsection (a) terminates as to a qualified financial contract of the debtor or an affiliate immediately upon the failure of the trustee or the affiliate, as the case may be, to perform any such obligation during such period.

"(2) Any failure by a counterparty to any qualified financial contract of the debtor or any affiliate to perform any payment or delivery obligation under such qualified financial contract, including during the pendency of the stay provided under subsection (a), shall constitute a breach of such qualified financial contract by the counterparty.

"(c) Subject to the court's approval, a qualified financial contract between an entity and the debtor may be assigned to or assumed by the bridge company in a transfer under, and in accordance with, section 1185 if and only if—

"(1) all qualified financial contracts between the entity and the debtor are assigned to and assumed by the bridge company in the transfer under section 1185;

"(2) all claims of the entity against the debtor in respect of any qualified financial contract between the entity and the debtor (other than any claim that, under the terms of the qualified financial contract, is subordinated to the claims of general unsecured creditors) are assigned to and assumed by the bridge company;

"(3) all claims of the debtor against the entity under any qualified financial contract between the entity and the debtor are assigned to and assumed by the bridge company; and

"(4) all property securing or any other credit enhancement furnished by the debtor for any qualified financial contract described in paragraph (1) or any claim described in paragraph (2) or (3) under any qualified financial contract

between the entity and the debtor is assigned to and assumed by the bridge company.

"(d) Notwithstanding any provision of a qualified financial contract or of applicable nonbankruptcy law, a qualified financial contract of the debtor that is assumed or assigned in a transfer under section 1185 may not be accelerated, terminated, or modified, after the entry of the order approving a transfer under section 1185, and any right or obligation under the qualified financial contract may not be accelerated, terminated, or modified, after the entry of the order approving a transfer under section 1185 solely because of a condition described in section 1187(c)(1), other than a condition of the kind specified in section 1187(b) that occurs after property of the estate no longer includes a direct beneficial interest or an indirect beneficial interest through the special trustee, in more than 50 percent of the equity securities of the bridge company.

"(e) Notwithstanding any provision of any agreement or in applicable nonbankruptcy law, an agreement of an affiliate (including an executory contract, an unexpired lease, qualified financial contract, or an agreement under which the affiliate issued or is obligated for debt) and any right or obligation under such agreement may not be accelerated, terminated, or modified, solely because of a condition described in section 1187(c)(1), other than a condition of the kind specified in section 1187(b) that occurs after the bridge company is no longer a direct or indirect beneficial holder of more than 50 percent of the equity securities of the affiliate, at any time after the commencement of the case if—

"(1) all direct or indirect interests in the affiliate that are property of the estate are transferred under section 1185 to the bridge company within the period specified in subsection (a);

"(2) the bridge company assumes—

"(A) any guarantee or other credit enhancement issued by the debtor relating to the agreement of the affiliate; and

"(B) any obligations in respect of rights of setoff, netting arrangement, or debt of the debtor that directly arises out of or directly relates to the guarantee or credit enhancement; and

"(3) any property of the estate that directly serves as collateral for the guarantee or credit enhancement is transferred to the bridge company.

"§ 1189. Licenses, permits, and registrations

"(a) Notwithstanding any otherwise applicable nonbankruptcy law, if a request is made under section 1185 for a transfer of property of the estate, any Federal, State, or local license, permit, or registration that the debtor or an affiliate had immediately before the commencement of the case and that is proposed to be transferred under section 1185 may not be accelerated, terminated, or modified at any time after the request solely on account of—

"(1) the insolvency or financial condition of the debtor at any time before the closing of the case;

"(2) the commencement of a case under this title concerning the debtor;

"(3) the appointment of or taking possession by a trustee in a case under this title concerning the debtor or by a custodian before the commencement of the case; or

"(4) a transfer under section 1185.

"(b) Notwithstanding any otherwise applicable nonbankruptcy law, any Federal, State, or local license, permit, or registration that the debtor had immediately before the commencement of the case that is included in a transfer under section 1185 shall be valid and all rights and obligations thereunder shall vest in the bridge company.

"§ 1190. Exemption from securities laws

"For purposes of section 1145, a security of the bridge company shall be deemed to be a security of a successor to the debtor under a plan if the court approves the disclosure statement for the plan as providing adequate information (as defined in section 1125(a)) about the bridge company and the security.

"§ 1191. Inapplicability of certain avoiding powers

"A transfer made or an obligation incurred by the debtor to an affiliate prior to or after the commencement of the case, including any obligation released by the debtor or the estate to or for the benefit of an affiliate, in contemplation of or in connection with a transfer under section 1185 is not avoidable under section 544, 547, 548(a)(1)(B), or 549, or under any similar nonbankruptcy law.

"§ 1192. Consideration of financial stability

"The court may consider the effect that any decision in connection with this subchapter may have on financial stability in the United States.".

SEC. 4. AMENDMENTS TO TITLE 28, UNITED STATES CODE.

(a) AMENDMENT TO CHAPTER 13.—Chapter 13 of title 28, United States Code, is amended by adding at the end the following:

"§ 298. Judge for a case under subchapter V of chapter 11 of title 11

"(a)(1) Notwithstanding section 295, the Chief Justice of the United States shall designate not fewer than 10 bankruptcy judges to be available to hear a case under subchapter V of chapter 11 of title 11. Bankruptcy judges may request to be considered by the Chief Justice of the United States for such designation.

"(2) Notwithstanding section 155, a case under subchapter V of chapter 11 of title 11 shall be heard under section 157 by a bankruptcy judge designated under paragraph (1), who shall be randomly assigned to hear such case by the chief judge of the court of appeals for the circuit embracing the district in which the case is pending. To the greatest extent practicable, the approvals required under section 155 should be obtained.

"(3) If the bankruptcy judge assigned to hear a case under paragraph (2) is not assigned to the district in which the case is pending, the bankruptcy judge shall be temporarily assigned to the district.

"(b) A case under subchapter V of chapter 11 of title 11, and all proceedings in the case, shall take place in the district in which the case is pending.

"(c) In this section, the term 'covered financial corporation' has the meaning given that term in section 101(9A) of title 11.".

(b) AMENDMENT TO SECTION 1334 OF TITLE 28.—Section 1334 of title 28, United States Code, is amended by adding at the end the following:

"(f) This section does not grant jurisdiction to the district court after a transfer pursuant to an order under section 1185 of title 11 of any proceeding related to a special trustee appointed, or to a bridge company formed, in connection with a case under subchapter V of chapter 11 of title 11.".

(c) TECHNICAL AND CONFORMING AMENDMENT.—The table of sections for chapter 13 of title 28, United States Code, is amended by adding at the end the following:

"298. Judge for a case under subchapter V of chapter 11 of title 11.".

Purpose and Summary

The U.S. bankruptcy process is not optimally designed for the orderly resolution of financial institutions for many reasons, including these institutions' interconnectedness and, in the case of larger and more interconnected institutions, a potential to pose "systemic risk" to the broader financial system. H.R. 2947, the "Financial Institution Bankruptcy Act of 2016," amends chapter 11 of Title 11 of the United States Code (Bankruptcy Code) to address better the unique challenges presented by the insolvency of a financial institution and better allow such an institution to be resolved through the bankruptcy process.

Background and Need for the Legislation

A. BRIEF OVERVIEW OF CHAPTER 11

Chapter 11 of the Bankruptcy Code is designed primarily to allow a business to restructure its debt obligations while maintaining its operations. The underlying principle is that a business in its entirety is more valuable than each of its assets valued independently. Preservation of a business through chapter 11, and in turn its enterprise value, can benefit both creditors, who should receive a higher recovery as a result of a debtor's restructuring than they would otherwise obtain through a liquidation, and debtors, who benefit from the ability to continue their business operations. Employees, suppliers, customers and others can also benefit if debtors continue their business operations.

A chapter 11 case begins by the filing of a petition for relief with the relevant bankruptcy court. Once the petition is filed, an "automatic stay" is put into place that prevents, with some exceptions,

creditors from taking actions to recover their debts. The automatic stay allows a debtor the breathing room necessary to organize its operations, negotiate with creditors, and achieve consensus on a chapter 11 plan. The inflection point of a chapter 11 case is the chapter 11 plan, which dictates what each of the creditors will receive as a recovery. The chapter 11 plan must be approved by the debtor's creditors and the bankruptcy court. Once a chapter 11 plan is approved, creditors of the debtor may only pursue recoveries as provided by the chapter 11 plan, and the reorganized company is treated as a new corporate entity.

There are generally two primary paths for a debtor to restructure under chapter 11. The first path is a traditional reorganization of a debtor's capital structure. A simple example of this type of reorganization would involve a debtor's shareholders not receiving any recovery on account of their shares, and the debtor's secured creditors becoming the new equity holders of the reorganized company. The second path is a sale of a debtor's primary business, with the proceeds of the sale used to provide recoveries to the debtor's creditors. The sale of a business as a whole is distinct from a liquidation, in that the enterprise typically will continue to operate in a substantially similar form under new, third party ownership. In a liquidation, the debtor's assets likely will be sold in piecemeal fashion or simply handed over to creditors.

B. THE EXISTING BANKRUPTCY CODE AND ADDRESSING FINANCIAL INSTITUTION INSOLVENCIES

The bankruptcy process has been the traditional mechanism for handling the orderly resolution of distressed companies in the U.S. because of bankruptcy's established history of laws, precedent and impartial administration. According to a report by the Federal Deposit Insurance Corporation (FDIC) and the Bank of England, "[t]he U.S. would prefer that large financial organizations be resolvable through ordinary bankruptcy."[1] However, the report added that "the U.S. bankruptcy process may not be able to handle the failure of a systemic financial institution without significant disruption to the financial system."[2] Of note, smaller financial institutions can also restructure their operations under the Bankruptcy Code in the event of material financial distress or failure.

In the wake of the 2008 financial crisis, the Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. No. 111–203, directed the Board of Governors of the Federal Reserve System (Federal Reserve) and the Governmental Accountability Office (GAO) to study the Bankruptcy Code and international issues related to the insolvency of financial institutions as part of an overall effort to reduce systemic risk within the financial sector.[3] The studies identified a number of issues specific to the resolution of insolvent financial institutions and discussed theories regarding how to address such issues, without offering specific recommendations or

[1] *See* Federal Deposit Insurance Corporation and the Bank of England, *Resolving Globally Active, Systemically Important, Financial Institutions* (Dec. 10, 2012), *available at* http://www.bankofengland.co.uk/publications/Documents/news/2012/nr156.pdf.

[2] *Id.*

[3] Pub. L. No. 111–203 §§ 202(e), 216, 217 (2010).

independent opinions regarding potential revisions to the Bankruptcy Code.[4]

Following these reports, the FDIC published a notice detailing its intended method for implementing its resolution/orderly liquidation authority under Title II of the Dodd-Frank Act, a non-bankruptcy resolution process the Dodd-Frank legislation made available for large, "systemically important" financial institutions.[5] The FDIC's method, referred to as "single point of entry," relies on placing a parent holding company into receivership while maintaining the operations and solvency of its operating subsidiaries.[6] Under this approach, the FDIC would be appointed as the receiver of the parent holding company and could transfer the parent company's assets into a bridge financial holding company, impose losses on the shareholders and creditors of the parent company, and eventually transition ownership of the bridge financial company into private hands.[7]

Some commentators have suggested that the "single point of entry" approach should also be made available in the Bankruptcy Code.[8] One of the proposed methods to amend the Bankruptcy Code to facilitate the use of this approach creates an entirely new subchapter within chapter 11, referred to as "subchapter V," dedicated to addressing the insolvency of a financial institution.

Another leading proposal is referred to as "chapter 14" and would introduce an entirely new chapter to the Bankruptcy Code, with substantially similar amendments to the Bankruptcy Code as subchapter V. One significant difference between these two approaches is that chapter 14 may not incorporate the relevant case law related to other components of chapter 11 that remain undisturbed under both approaches, while subchapter V clearly maintains such case law.[9]

As explained in additional detail below, the subchapter V proposal is designed to address the unique issues presented by a financial institution's bankruptcy. Subchapter V would, among other elements: apply to financial institutions; confer explicit standing to the financial institution's primary regulators in the institution's bankruptcy proceeding; designate a select group of bankruptcy judges to oversee these bankruptcies; and, provide specialized treatment for derivative contracts. Advocates of this approach argue that a transparent judicial process that allows for the reorganization, rather than liquidation, of a large financial institution is

---

[4] *See* the Board of Governors of the Federal Reserve System, *Study on the International Coordination Relating to Bankruptcy Process for Nonbank Financial Institutions* (July 2011); *see also* Government Accountability Office, *Complex Financial Institutions and International Coordinate Pose Challenges* (July 2011).

[5] Resolution of Systemically Important Financial Institutions: The Single Point of Entry Strategy, 78 Fed. Reg. 76,614 (Dec. 18, 2013).

[6] *Id.*

[7] *Id.*

[8] *See The Bankruptcy Code and Financial Institution Insolvencies: Hearing Before the Subcomm. on Regulatory Reform, Commercial and Antitrust Law of the H. Comm. on the Judiciary,* 113th Cong. 12 (2013) *(hereinafter December Bankruptcy Hearing)* (statement of Donald S. Bernstein).

[9] Letter from Stephen E. Hessler, Partner, Kirkland & Ellis LLP to Bob Goodlatte et al., Chairman, House of Representatives Committee on the Judiciary (Mar. 14, 2016) (on file with the Committee).

a preferable resolution strategy because of, among other things, the benefits of due process.[10]

C. THE CHALLENGES PRESENTED BY A FINANCIAL INSTITUTION INSOLVENCY AND HOW THE FINANCIAL INSTITUTION BANKRUPTCY ACT ADDRESSES THESE CHALLENGES

There are a number of challenges posed by the insolvency of a financial institution, particularly the insolvency of a large, multinational financial institution. The resolution of a financial institution must be swift, transparent and account for the potential impact on the general financial system, due to the typically liquid and quickly transferable assets of a financial institution. While the existing Bankruptcy Code possesses many of the provisions necessary to resolve a large, failing firm, commentators have suggested that improvements are necessary to resolve effectively a financial institution.[11]

As explained above, commentators generally agree that the "single point of entry" approach is the most efficient proposal to provide for an expeditious resolution of a financial firm.[12] H.R. 2947, the "Financial Institution Bankruptcy Act of 2016," adopts the proposed method of creating a new subchapter within chapter 11 of the Bankruptcy Code to allow the "single point of entry" approach to be utilized in the bankruptcy process. H.R. 2947 allows the debtor holding company that sits atop the financial firm's corporate structure to transfer its assets, including the equity in all of its operating subsidiaries, to a newly-formed bridge company over a single weekend.[13] The debt, any remaining assets, and equity of the holding company will remain in the bankruptcy process and absorb the losses of the financial institution. Identifying the debt and equity to remain in the bankruptcy process allows existing creditors of the debtor to price appropriately their dealings and investment with the debtor prior to any bankruptcy proceeding.

Furthermore, the subchapter V "single point of entry" approach allows all of the financial institution's operating subsidiaries to remain out of the bankruptcy process. Keeping these entities out of an insolvency proceeding is particularly helpful for multi-national firms that otherwise could be required to comply with multiple, and potentially conflicting, insolvency jurisdictions. The following is a graphical representation of the "single point of entry" approach in bankruptcy.

---

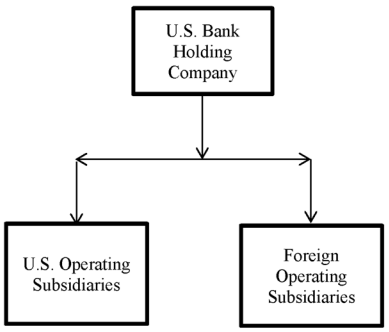
[10] *H.R.* ____, the "Financial INstitution Bankruptcy Act of 2014": Hearing Before the Subcomm. on Regulatory Reform, Commercial and Antitrust Law of the H. Comm. on the Judiciary, 113th Cong. (2014) at 34 *(hereinafter July FIBA Hearing)* (statement of Donald S. Bernstein).

[11] *See, e.g., Too Big To Fail: The Role for Bankruptcy and Antitrust Law in Financial Regulation Reform (Part I): Hearing before the Subcomm. on Commercial and Administrative Law of the H. Comm. on the Judiciary,* 111th Cong. 64–79 (2009) (statement of Harvey R. Miller).

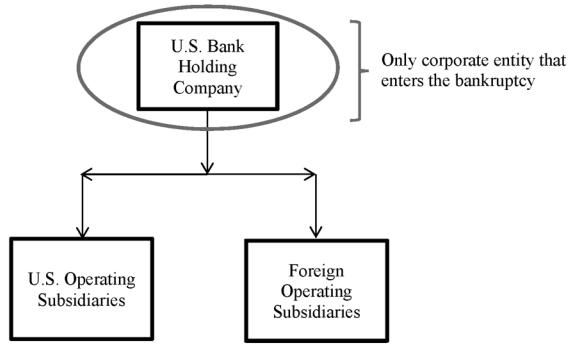
[12] *See, e.g., July FIBA Hearing* (statements of Donald Bernstein & Thomas Jackson).

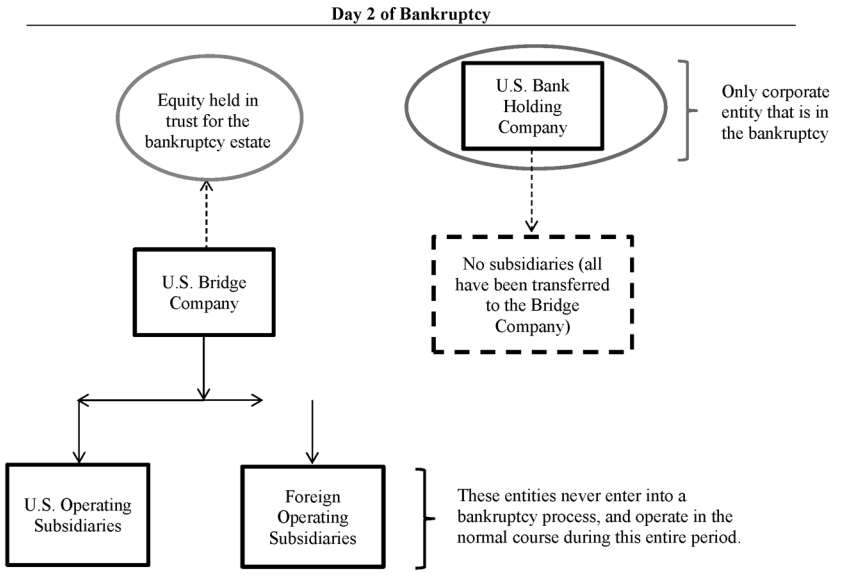
[13] Given the sensitivity of banking relationships and the financial marketplace, practicalities dictate that this transfer must be performed over the course of a period when the financial markets are not open.

Pre – Bankruptcy



Day 1 of Bankruptcy





The amendments to the Bankruptcy Code contained in H.R. 2947 also account for the potential of a financial firm's insolvency to impact the general financial markets, often referred to as systemic risk. H.R. 2947 provides that key financial regulators are granted explicit standing in subchapter V cases in order to give the presiding bankruptcy judge the benefit of their views when considering pending motions. Additionally, the legislation allows the presiding bankruptcy judge to consider the impact of a decision on financial stability in the United States before issuing a final judgment on any motion. Both of these provisions are designed to account for the potential of systemic risk in a subchapter V case.

An additional element of H.R. 2947 intended to address systemic risk is its amendments to the Bankruptcy Code that deal with the types of transactions through which systemic contagion can most readily spread and that financial institutions engage in routinely, namely, derivative and similarly-structured transactions. Currently, the Bankruptcy Code contains exemptions for counterparties to derivative and similarly-structured transactions to collect on outstanding debts notwithstanding the commencement of a chapter 11 case and the consequent "automatic stay." This exemption stands in contrast to the treatment of other contracts and debts under the Bankruptcy Code, which typically results in requiring creditors to wait until a chapter 11 plan is approved before they receive a recovery on account of their relationship with the debtor. H.R. 2947 overrides the exemption for derivative and similarly-

structured transactions contained in the Bankruptcy Code by imposing a temporary 2-day stay that would allow for the effective transfer of the financial institution's operations to a bridge company. Without this override of the existing exemption, counterparties to derivatives and similarly-structured transactions could terminate their relationships with a financial institution debtor upon the commencement of a bankruptcy case, which likely would endanger the successful transfer and continued operation of the bridge company and potentially threaten other entities within the broader financial system.[14]

H.R. 2947 contains key protections for counterparties to derivative contracts. For example, new section 1188(b) under the bill requires the financial institution to perform its contractual obligations during the stay, the failure of which results in the termination of the stay.[15] This provision ensures that the financial institution continues to perform such that counterparties are protected during the brief stay period. Additionally, to the extent the financial institution wishes to transfer its derivative contracts to the bridge institution, all of the contracts between the financial institution and the counterparty must be transferred.[16] This ensures that the financial institution cannot "cherry pick" between the contracts it has with a particular counterparty. Additionally, the financial institution must transfer all related claims and collateral along with the to-be transferred derivative contracts.[17] This provision ensures that the counterparty has all of its rights and collateral preserved at the bridge company. Finally, immediately following the transfer, a derivative contract counterparty may terminate the contract based on any provision predicated on the non-performance of a contractual obligation. In sum, derivative contract counterparties have a host of protections afforded to them within H.R. 2947.

Notably, 18 major financial institutions have separately and voluntarily agreed to include a 48-hour stay in their derivative contracts with each other to the extent any of the financial institutions are subject to a "resolution action."[18] In other words, these institutions already have voluntarily incorporated the 48-hour stay concept included in H.R. 2947. However, these voluntary agreements are not comprehensive and some parties who enter into derivative contracts are not subject to the voluntary 48-hour stay.

H.R. 2947 also expressly acknowledges the speed by which a financial institution must be resolved in order to mitigate financial contagion. To that end, the legislation includes specific and expedient timeframes for the commencement of a case as well as court approval of the transfer of assets to the bridge company.

The bill also recognizes that overseeing a subchapter V case requires a presiding bankruptcy judge to have a certain level of expertise and experience with either financial industry cases or large

---

[14] *July FIBA Hearing* (statement of Stephen E. Hessler).
[15] H.R. 2947 § 1188(b).
[16] H.R. 2947 § 1188(c)(1).
[17] H.R. 2947 §§ 1188(c)(2)-(4).
[18] International Swaps and Derivatives Association, *Major Banks Agree to Sign ISDA Resolution Stay Protocol* (Oct. 11, 2014), available at http://www2.isda.org/news/major-banks-agree-to-sign-isda-resolution-stay-protocol. The 18 financial institutions subject to the agreement are: Bank of America Merrill Lynch; Bank of Tokyo-Mitsubishi UFJ; Barclays; BNP Paribas; Citigroup; Crédit Agricole; Credit Suisse; Deutsche Bank; Goldman Sachs; HSBC; JP Morgan Chase; Mizuho Financial Group; Morgan Stanley; Nomura; Royal Bank of Scotland; Société Générale; Sumitomo Mitsui Financial Group; and UBS.

corporate reorganizations. To that end, H.R. 2947 contains provisions that require the advance designation of bankruptcy judges who can be available to hear these cases.

D. THE AMENDMENT TO THE FINANCIAL INSTITUTION BANKRUPTCY ACT

During Committee consideration of the Financial Institution Bankruptcy Act, a substitute amendment was adopted by the Committee. The amendment makes several revisions to the introduced version of the bill. First, it removes the Federal Reserve's ability to initiate an involuntary bankruptcy petition and the related expedited judicial review process for such a petition. All of the witnesses at the July 9, 2015 Subcommittee hearing testified in support of this revision, stating that the Federal Reserve already has sufficient regulatory power to induce a financial institution to seek a subchapter V bankruptcy.[19] Second, the amendment clarifies that the chief judge of the Court of Appeals for the district in which the subchapter V case will be commenced will be the person who randomly selects the bankruptcy judge from the pre-designated pool of judges. This revision reflects comments provided by the Administrative Office of the U.S. Courts. Finally, the legislation makes several clarifying technical revisions to the introduced text. For example, the amendment clarifies that the term "agreement" includes "qualified financial contracts" and revises the short title to refer to the year 2016 rather than 2015.

Hearings

Last Congress, the Committee conducted two separate hearings on the topic of enhancing the Bankruptcy Code to address the resolution of a financial institution through the bankruptcy process. Additionally, the Committee conducted a legislative hearing on a discussion draft of the "Financial Institution Bankruptcy Act," which served as the foundation for the later-introduced bill.

On December 3, 2013, the Subcommittee on Regulatory Reform, Commercial and Antitrust Law (hereinafter, the "Subcommittee") conducted a hearing entitled "The Bankruptcy Code and Financial Institution Insolvencies."[20] The witnesses at the hearing were: the Honorable Jeffrey M. Lacker, President of the Federal Reserve Bank of Richmond; Professor Mark J. Roe, David Berg Professor of Law, Harvard Law School; and Donald S. Bernstein, Esq., partner and head of Davis Polk & Wardwell LLP's Insolvency and Restructuring Practice and past chair of the National Bankruptcy Conference. At the hearing, witnesses testified that a financial institution's bankruptcy presents unique issues that the existing Bankruptcy Code could be equipped better to address.

On March 26, 2014, the Subcommittee conducted a hearing entitled "Exploring Chapter 11 Reform: Corporate and Financial Institution Insolvencies; Treatment of Derivatives."[21] The witnesses at

---

[19] *See, e.g., H.R. 2947, the "Financial Institution Bankruptcy Act of 2015": Hearing Before the Subcomm. on Regulatory Reform, Commercial and Antitrust Law of the H. Comm. on the Judiciary,* 114th Cong. 18 (2015) (statement of Stephen E. Hessler).

[20] *December Bankruptcy Hearing.*

[21] *Exploring Chapter 11 Reform: Corporate and Financial Institution Insolvencies; Treatment of Derivatives: Hearing Before the Subcomm. on Regulatory Reform, Commercial and Antitrust Law of the H. Comm. on the Judiciary,* 113th Cong. (2014).

the hearing were: Professor Michelle Harner, Reporter for the American Bankruptcy Institute Commission to Study the Reform of Chapter 11, University of Maryland; Professor Thomas H. Jackson, William E. Simon School of Business, University of Rochester; the Honorable Christopher Sontchi, U.S. Bankruptcy Court for the District of Delaware; Seth Grosshandler, Esq., Partner, Cleary Gottlieb Steen & Hamilton, LLP; and Jane Vris, Millstein & Co, on behalf of the National Bankruptcy Conference. During this hearing, the Committee received testimony in support of amending the Bankruptcy Code to create a subchapter V under chapter 11 to allow the resolution of a financial institution through the bankruptcy process, using the single-point-of-entry approach.[22]

In addition, on July 15, 2014, the Subcommittee conducted a legislative hearing on a discussion draft of the Financial Institution Bankruptcy Act. The witnesses at the hearing were: Donald S. Bernstein, Esq., partner and head of Davis Polk & Wardwell LLP's Insolvency and Restructuring Practice and past chair of the National Bankruptcy Conference; Stephen E. Hessler, Esq., Partner, Kirkland & Ellis, LLP; Professor Thomas H. Jackson, William E. Simon School of Business, University of Rochester; and, Professor Stephen J. Lubben, Seton Hall University School of Law. All four witnesses, including the Minority witness, testified that they believed the Financial Institution Bankruptcy Act, subject to certain modifications, should be enacted into law.

Following the July 2014 hearing, the Committee received informal staff-level comments on the discussion draft of the Financial Institution Bankruptcy Act from, among others, the Federal Reserve, the FDIC, the Office of the Comptroller of the Currency, the Administrative Office of the U.S. Courts, the National Conference of Bankruptcy Judges, the National Bankruptcy Conference, and the International Swaps and Derivatives Association. The comments received from these parties served as the basis for revisions to the discussion draft.

On September 9, 2014, Rep. Spencer Bachus (R–AL), together with Rep. Bob Goodlatte (R–VA) and Rep. John Conyers, Jr. (D–MI) introduced H.R. 5421, the "Financial Institution Bankruptcy Act of 2014." On September 10, 2014, the full Committee reported H.R. 5421 favorably to the House by voice vote. On December 1, 2014, the House passed H.R. 5421 under suspension of the rules. The introduced version of H.R. 2947 is identical to the House-passed version of H.R. 5421.

This Congress, on July 9, 2015, the Subcommittee conducted a legislative hearing on H.R 2947. The witnesses at the hearing were: Donald S. Bernstein, Esq., partner and head of Davis Polk & Wardwell LLP's Insolvency and Restructuring Practice and past chair of the National Bankruptcy Conference; Stephen E. Hessler, Esq., Partner, Kirkland & Ellis, LLP; and, Richard Levin, Esq., partner, Jenner & Block, LLP on behalf of the National Bankruptcy Conference. All of the witnesses testified in support of the Financial Institution Bankruptcy Act, subject to certain modifications.

[22] *Id.* (testimony of Prof. Jackson).

Committee Consideration

On February 11, 2016, the Committee met in open session and ordered the bill H.R. 2947 favorably reported, with an amendment, by a vote of 25–0, a quorum being present.

Committee Votes

In compliance with clause 3(b) of rule XIII of the Rules of the House of Representatives, the Committee advises that the following rollcall votes occurred during the Committee's consideration of H.R. 2947:

1. Motion to report H.R. 2947, as amended, favorably to the House of Representatives. Agreed to by a vote of 25 ayes to 0 noes.

ROLLCALL NO. 1

	Ayes	Nays	Present
Mr. Goodlatte (VA), Chairman	X		
Mr. Sensenbrenner, Jr. (WI)			
Mr. Smith (TX)			
Mr. Chabot (OH)	X		
Mr. Issa (CA)			
Mr. Forbes (VA)	X		
Mr. King (IA)	X		
Mr. Franks (AZ)	X		
Mr. Gohmert (TX)	X		
Mr. Jordan (OH)			
Mr. Poe (TX)	X		
Mr. Chaffetz (UT)	X		
Mr. Marino (PA)	X		
Mr. Gowdy (SC)	X		
Mr. Labrador (ID)	X		
Mr. Farenthold (TX)			
Mr. Collins (GA)	X		
Mr. DeSantis (FL)	X		
Ms. Walters (CA)			
Mr. Buck (CO)	X		
Mr. Ratcliffe (TX)	X		
Mr. Trott (MI)	X		
Mr. Bishop (MI)	X		
Mr. Conyers, Jr. (MI), Ranking Member	X		
Mr. Nadler (NY)	X		
Ms. Lofgren (CA)	X		
Ms. Jackson Lee (TX)			
Mr. Cohen (TN)	X		
Mr. Johnson, Jr. (GA)			
Mr. Pierluisi (PR)			
Ms. Chu (CA)	X		
Mr. Deutch (FL)			
Mr. Gutierrez (IL)			
Ms. Bass (CA)			
Mr. Richmond (LA)			
Ms. DelBene (WA)	X		
Mr. Jeffries (NY)			
Mr. Cicilline (RI)	X		

ROLLCALL NO. 1—Continued

	Ayes	Nays	Present
Mr. Peters (CA)	X		
Total	25	0	

Committee Oversight Findings

In compliance with clause 3(c)(1) of rule XIII of the Rules of the House of Representatives, the Committee advises that the findings and recommendations of the Committee, based on oversight activities under clause 2(b)(1) of rule X of the Rules of the House of Representatives, are incorporated in the descriptive portions of this report.

New Budget Authority and Tax Expenditures

Clause 3(c)(2) of rule XIII of the Rules of the House of Representatives is inapplicable because this legislation does not provide new budgetary authority or increased tax expenditures.

Congressional Budget Office Cost Estimate

In compliance with clause 3(c)(3) of rule XIII of the Rules of the House of Representatives, the Committee sets forth, with respect to the bill, H.R. 2947, the following estimate and comparison prepared by the Director of the Congressional Budget Office under section 402 of the Congressional Budget Act of 1974:

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, DC, March 21, 2016.

Hon. BOB GOODLATTE, CHAIRMAN,
Committee on the Judiciary,
House of Representatives, Washington, DC.

DEAR MR. CHAIRMAN: The Congressional Budget Office has prepared the enclosed cost estimate for H.R. 2947, the "Financial Institution Bankruptcy Act of 2016."

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contact is Kathleen Gramp, who can be reached at 226–2860.

Sincerely,

KEITH HALL,
DIRECTOR.

Enclosure

cc: Honorable John Conyers, Jr.
Ranking Member

H.R. 2947—Financial Institution Bankruptcy Act of 2016.

As ordered reported by the House Committee on the Judiciary on February 11, 2016.

SUMMARY

H.R. 2947 would establish a new bankruptcy process for certain financial institutions with assets of more than $50 billion. The new process could assist institutions that may be too complex to resolve a bankruptcy under existing laws. CBO estimates that enacting the legislation would have no significant effect on the Federal budget.

Pay-as-you-go procedures apply because enacting the legislation could affect direct spending and revenues related to bankruptcy proceedings and other programs aimed at resolving the failure of banks and other financial firms. However, CBO estimates that those effects would not be significant.

CBO estimates that enacting H.R. 2947 would not increase net direct spending or on-budget deficits in any of the four consecutive 10-year period beginning in 2027.

H.R. 2947 contains no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA).

H.R. 2947 would impose a private-sector mandate, as defined in UMRA, on entities that have certain types of contracts with bank holding companies or large financial institutions that have entered the bankruptcy process established under the bill. Because of uncertainty about both the number and size of contracts that would be affected and the amount of losses that would occur as a result of this provision, CBO cannot determine whether the cost of the mandate would exceed the threshold established in UMRA for private-sector mandates ($154 million in 2016, adjusted for inflation).

BASIS OF ESTIMATE

The new bankruptcy procedures in H.R. 2947 could affect the cash flows of Federal programs that are currently available to resolve the failure of financial institutions. For example, it is possible that some firms eligible to use the new bankruptcy process also could use the current procedures of the Federal Deposit Insurance Corporation (FDIC) to resolve their financial difficulties. FDIC is authorized to resolve financial problems for large, systemically important financial firms that become insolvent or are in danger of becoming insolvent.

Using FDIC's resolution program under current law is contingent on certain conditions, including a finding by the Secretary of the Treasury that the bankruptcy process would not be appropriate for the resolution of a firm's financial difficulties. If the necessary conditions are met, the FDIC may borrow funds from the Treasury to finance resolution activities and must collect fees from other large financial firms to offset the cost of any losses; those transactions occur through the Orderly Liquidation Fund (OLF). Although any spending from the OLF for resolution activities would initially increase Federal outlays, those costs would subsequently be offset by income received from selling the assets of the firm or from assessing fees. CBO anticipates that the secretary would use the OLF primarily during times of economic distress for complex financial institutions that require significant levels of capital or liquidity support. There is a very small chance that such a condition could occur in any year.

CBO expects that implementing H.R. 2947 would increase the probability that some financial firms would use the bankruptcy

process instead of the FDIC process described above. The effects of that change on the cash flows of the OLF would depend on economic, legal, and strategic factors that are difficult to quantify. CBO expects that the types of financial institutions with difficulties that could be resolved under the bankruptcy provisions in H.R. 2947 would be those that otherwise would have had a negligible net effect on the budget (for example, the failure of a single firm with financial losses and liquidity requirements that largely could be covered by non-federal resources). Shifting those types of cases from the FDIC to the bankruptcy courts probably would have no significant net effect on the budget.

PAY-AS-YOU-GO CONSIDERATIONS

The Statutory Pay-As-You-Go Act of 2010 establishes budget-reporting and enforcement procedures for legislation affecting direct spending or revenues. CBO estimates that any changes in direct spending and revenues under H.R. 2947 would be insignificant over the 2016–2026 period.

INCREASE IN LONG-TERM DIRECT SPENDING AND DEFICITS

CBO estimates that enacting the legislation would not increase net direct spending or on-budget deficits in any of the four consecutive 10-year periods beginning in 2027.

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

H.R. 2947 contains no intergovernmental mandates as defined in UMRA.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

H.R. 2947 would impose a private-sector mandate, as defined in UMRA, on entities that have certain types of contracts with bank holding companies or large financial institutions that have entered the bankruptcy process established under the bill. The bill would limit the contractual rights that those entities have under current law by imposing a temporary stay on actions to terminate or modify such contracts for 48 hours after a bankruptcy petition is filed. Limiting the ability of those entities to take actions such as collecting collateral or accelerating debt during that 2-day period could cause them to incur losses. The cost of the mandate would total any losses sustained by such parties as a result of the stay.

As the bankruptcy process under the bill is reserved for large financial institutions, the potential losses for the parties affected by a stay could be quite substantial. However, because of uncertainty about both the number and size of contracts that would be affected and the amount of losses that would occur as a result of this provision, CBO cannot determine whether the cost of the mandate would exceed the threshold established in UMRA for private-sector mandates ($154 million in 2016, adjusted for inflation).

ESTIMATE PREPARED BY:

Federal Costs: Kathleen Gramp
Impact on State, Local, and Tribal Governments: Rachel Austin
Impact on the Private Sector: Logan Smith

ESTIMATE APPROVED BY:

H. Samuel Papenfuss
Deputy Assistant Director for Budget Analysis

Duplication of Federal Programs

No provision of H.R. 2947 establishes or reauthorizes a program of the Federal Government known to be duplicative of another Federal program, a program that was included in any report from GAO to Congress pursuant to section 21 of Public Law 111–139, or a program related to a program identified in the most recent Catalog of Federal Domestic Assistance.

Disclosure of Directed Rule Makings

The Committee estimates that H.R. 2947 specifically directs to be completed no specific rule makings within the meaning of 5 U.S.C. § 551.

Performance Goals and Objectives

The Committee states that pursuant to clause 3(c)(4) of rule XIII of the Rules of the House of Representatives, H.R. 2947 amends title 11 of the United States Code in order to facilitate the resolution of an insolvent financial institution in bankruptcy.

Advisory on Earmarks

In accordance with clause 9 of rule XXI of the Rules of the House of Representatives, H.R. 2947 does not contain any congressional earmarks, limited tax benefits, or limited tariff benefits as defined in clause 9(e), 9(f) or 9(g) of Rule XXI.

Section-by-Section Analysis

The following discussion describes the bill as reported by the Committee.

Section 1. Short Title.

Sets forth the short title of the legislation as the "Financial Institution Bankruptcy Act of 2016."

Section 2. General Provisions Relating to Covered Financial Corporations.

Subsection (a) amends Bankruptcy Code section 101, which defines various terms used throughout the Bankruptcy Code, to add the definition of "covered financial corporation." In sum, the term is defined as a bank holding company, as defined in the Bank Holding Company Act of 1956 (BHCA),[23] or a corporation that: exists for the primary purpose of owning subsidiaries; has consolidated assets of $50 billion or more; and derives annual gross revenues from activities that are financial in nature as defined in the BHCA or with respect to which at least 85% of the company's consolidated assets are financial in nature as defined in the BHCA.[24]

[23] *See* 12 U.S.C. § 1841(a) (2016).
[24] *See* 12 U.S.C. § 1843(k) (2016).

Subsection (b) of the bill amends Bankruptcy Code section 103, which specifies those provisions that apply to the Bankruptcy Code's substantive titles. Subsection (b) provides that subchapter V of chapter 11 (as added by the legislation) will only apply to chapter 11 cases in which a covered financial corporation is the debtor. To be clear, to the extent a covered financial corporation could utilize the chapter 11 process and chooses not to invoke the subchapter V process, that covered financial corporation can still choose to pursue a "traditional" chapter 11 case.

Subsection (c) amends Bankruptcy Code section 109, which sets forth the eligibility criteria to be a bankruptcy debtor, to provide that a covered financial corporation is eligible to be a chapter 11 debtor.

Subsection (d) amends Bankruptcy Code section 1112, which authorizes conversion of a chapter 11 case to a chapter 7 case or the dismissal of the chapter 11 case, under certain, specified circumstances. This subsection adds new subsection (g) to section 1112 to permit the conversion of a subchapter V case to a chapter 7 case, if: (1) a transfer approved under section 1185 (as added by the bill) has been consummated; (2) the court has ordered the appointment of a special trustee under section 1186 (as added by the bill); and (3) the court finds that such conversion is in the best interest of creditors and the estate.

Subsection (e)(1) amends Bankruptcy Code section 726(a)(1) to accord first payment priority to the fees, costs and expenses of a special trustee appointed under section 1186. Subsection (e)(2) makes two amendments to Bankruptcy Code section 1129(a), which sets forth the requirements for confirmation of a chapter 11 case. First, it requires the fees, costs and expenses of a special trustee to have been paid or for the subchapter V plan to provide for such payment. Second, it requires the court to find that confirmation of a subchapter V plan is not likely to cause adverse effects on financial stability in the United States.

Subsection (f) provides that a U.S. Trustee will recommend to the court the amount of a bond necessary in the event of a trustee appointment in a subchapter V case.

Section 3. Liquidation, Reorganization, or Recapitalization of a Covered Financial Corporation.

Section 3 inserts a new subchapter V into chapter 11 designed to address a bankruptcy of a covered financial corporation. All further references are to the new sections added to chapter 11 by the bill.

§ 1181. Inapplicability of other sections.

Specifies that Bankruptcy Code sections 303 (authorizing the commencement of an involuntary bankruptcy case, under certain circumstances) and 321(c) (which permits the United States Trustee to serve as a trustee in a bankruptcy case) do not apply to a subchapter V case. Also, specifies that Bankruptcy Code section 365 does not apply to the transfer under subchapter V. Sections 1185, 1187 and 1188 provide a complete list of considerations for the bankruptcy court regarding the transfer of assets, executory contracts, unexpired leases and qualified financial contracts such that section 365, which deals with the transfer and assignment of execu-

tory contracts and unexpired leases, is unnecessary in the context of a subchapter V case.

§ 1182. Definitions for this chapter.

Defines the following terms: Board; bridge company; capital structure debt; contractual right; qualified financial contract; and special trustee.

§ 1183. Commencement of a case concerning a covered financial corporation.

Subsection (a) authorizes the voluntary commencement of a subchapter V case if the debtor states under penalty of perjury that it is a covered financial corporation.

Subsection (b) provides that a subchapter V case commenced by the debtor constitutes an order for relief.

Subsection (c) shields a debtor's board of directors from any liability to shareholders, creditors or other parties in interest for a good faith filing of a subchapter V petition or with respect to a transfer under sections 1185 and 1186, as added by the bill.

Subsection (d) requires the debtor's counsel to provide as much advance notice as practicable, without disclosing the identity of the potential debtor, to the Chief Judge of the Court of Appeals for the Circuit embracing the district in which the debtor's counsel intends to file the petition for relief about the potential subchapter V case. This allows time for the Chief Judge to select randomly the presiding bankruptcy judge from the pool of pre-designated experienced bankruptcy judges. Additionally, this allows the selected bankruptcy judge time to prepare for weekend bankruptcy proceedings.

§ 1184. Regulators.

Provides the Federal Reserve, the Securities and Exchange Commission, the Office of the Comptroller of the Currency of the Department of the Treasury, the Commodity Futures Trading Commission, and the FDIC with standing in a subchapter V bankruptcy case.

§ 1185. Special transfer of property of the estate.

On request of the debtor, subsection (a) authorizes the bankruptcy court to order a transfer of estate property and the assignment of executory contracts and unexpired leases to a bridge company after notice and a hearing that must occur not less than 24 hours after commencement of the case. This subsection also clarifies that all property transferred is no longer property of the estate. Subsection (a) further provides that Bankruptcy Code section 363 (concerning sales of bankruptcy case assets) apply to such transfer, unless otherwise specified.

Subsection (b) requires not less than 24 hours' notice of the hearing under subsection (a), to be provided either by electronic or telephonic means, and identifies who must receive such notice.

Subsection (c) provides that the court may not order a transfer unless it determines by a preponderance of the evidence that: (1) the transfer is necessary to prevent serious adverse effects on financial stability in the United States; (2) the transfer does not provide for the assumption of any capital structure debt by the bridge

company; (3) the transfer does not provide for the transfer of the debtor's equity; (4) the debtor has demonstrated that the bridge company is not likely to fail to meet the obligations of any debt, executory contract, qualified financial contract or unexpired lease assumed and assigned to such company; (5) the bridge company after the transfer has adequate provision for fees, costs and expenses of the special trustee; (6) all of the bridge company's equity securities are transferred to a special trustee; (7) adequate provision has been made for the payment of the expenses of the bankruptcy estate and the special trustee; and (8) the bridge company has governing documents and initial directors and senior officers that are in the best interests of creditors and the estate.

With respect to property of the estate that is subject to a lien securing a debt, executory contract, unexpired lease or agreement of the debtor, subsection (c)(3) specifies that the transfer of this secured property may not be authorized unless:

> (A) the bridge company assumes such debt, executory contract, unexpired lease, qualified financial contract or agreement, and the property remains subject to such lien securing such debt, executory contract, unexpired lease, qualified financial contract or agreement and the court determines that assumption of such debt, executory contract, unexpired lease, qualified financial contract or agreement by the bridge company is in the best interests of the estate; or
>
> (B) such property is being transferred to the bridge company in accordance with the provisions of section 363.

Subsection (d) requires the bridge company to: (1) not have any property (*e.g.,* executory contracts, unexpired leases, qualified financial contracts) or debts immediately prior to the transfer; and (2) have equity securities that are property of the estate, which may be sold or distributed subject to the limitations contained in subchapter V.

§ 1186. Special Trustee.

Requires the section 1185 transfer order to provide that the debtor transfer to the special trustee all of the equity securities in the bridge company, and for the bridge company's equity to be held in trust for the sole benefit of the estate, subject to the payment of the special trustee's fees, costs and expenses. The court must approve the trust agreement as being in the best interests of the estate. The trust must exist solely for the purpose of holding, administering and disposing of the bridge company's equity securities. Subsection (a)(2) requires the debtor to confirm to the court that the Federal Reserve was consulted regarding the identity of the proposed special trustee and advise the court of the results of such consultation.

Subsection (b) specifies that the trust agreement governing the trust must satisfy certain requirements. These requirements include: (1) the trust must provide for the payment of the special trustee's fees, costs, expenses and indemnities from the assets of the debtor's estate; (2) the special trustee must prepare a quarterly report to the estate that is filed with the court; (3) the special trustee must provide information about the bridge company as rea-

sonably requested by a party in interest to prepare a disclosure statement for a plan providing for distribution of any securities of the bridge company; (4) as long as the equity securities of the bridge company are held by the trust, the special trustee must file with the court a notice regarding any change in the management of the bridge company, its governing documents and any material corporate action of the company; (5) any sale of any equity securities of the bridge company may not be consummated until the special trustee consults with the FDIC and the Federal Reserve regarding such sale, and discloses the results of such consultation with the court; and (6) the proceeds of the sale of any equity securities of the bridge company by the special trustee must be held in trust for the benefit of, or transferred to, the estate.

Subsection (c)(1) requires the special trustee to distribute the trust assets in accordance with a confirmed chapter 11 plan on its effective date or as ordered by the court if the subchapter V case is converted to a case under chapter 7. Subsection (c)(2) specifies that the office of the special trustee terminates as soon as practicable after final distribution.

Subsection (d) specifies that after the transfer of the bridge company's equity is made to the special trustee under this section, such trustee is subject only to applicable nonbankruptcy law and the trustee is no longer subject to the control of the bankruptcy court.

§ 1187. Temporary and supplemental automatic stay; assumed debt.

Extends the "automatic stay" triggered by the filing of a chapter 11 case to creditors who entered into contracts, leases, agreements and debt contracts with the debtor or its affiliates. Contrary to the typical automatic stay, which often can extend for the duration of the bankruptcy case and only is for the benefit of the entities that file for bankruptcy, the stay provided for under this section extends both to the debtor and to its affiliates. This section provides for temporary relief so that the debtor's and its affiliates' essential contracts, leases and agreements that are critical for the future operation of the bridge company can be transferred without disruption. The stay that benefits the debtor expires no later than 48 hours after the commencement of the case, or earlier if the transfer order is entered, or the case is dismissed, within the 48-hour time period. In order to allow the bridge company to operate, the stay covering *ipso facto* clauses, or contract provisions that relate to the insolvency of the debtor or the commencement of a bankruptcy case, continues for the benefit of affiliates. This extension of the stay to affiliates terminates if the transfer order does not provide for the transfer of the affiliate's interests to the bridge company, the case is dismissed, a transfer order is denied, or after 48 hours if a transfer order has not been ordered.

This section also provides that certain Bankruptcy Code provisions authorizing the termination of the automatic stay apply, subject to the satisfaction of the relevant conditions contained in those sections of the Bankruptcy Code.

In addition, section 1187 also allows the bridge company to assume debts, executory contracts (other than a qualified financial contract), or unexpired leases of the debtor notwithstanding anti-assignment provisions contained in those contracts. To the extent

that a default has occurred in these contracts, other than a default predicated on the assignment of the contract, the bridge company must cure the default, compensate the counterparty for the default, and demonstrate to the bankruptcy court that the bridge company will satisfy its obligations under the contract going forward.

Qualified financial contracts are excluded from this section because their treatment is provided for in section 1188. Capital structure debt is also excluded from this section because that debt remains in the bankruptcy case and those creditors will receive their recoveries through the traditional bankruptcy process.

§ 1188. Treatment of qualified financial contracts and affiliate contracts.

Extends the "automatic stay" triggered by the filing of a chapter 11 case to creditors who entered into derivative, repurchase and similarly constructed contracts with the debtor and its affiliates. In a typical chapter 11 case, these contracts are not subject to the automatic stay and creditors may exercise certain contractual remedies upon the filing of a bankruptcy case. This section provides that creditors are prohibited from exercising a limited set of rights. The stay with respect to qualified financial contracts of the debtor expires on the earlier of: (1) 48 hours from the commencement of the case; (2) the transfer of the contracts to the bridge company; or (3) the bankruptcy court's entry of an order denying the transfer to the bridge company. The stay with respect to qualified financial contracts of the debtor's affiliates expires on the earlier of: (1) 48 hours from the commencement of the case if the bankruptcy court does not enter a section 1185 transfer order; (2) entry of an order denying a section 1185 transfer; (3) entry of a section 1185 transfer order that does not include the transfer of the affiliate's qualified financial contracts; or (4) the case is dismissed. The anti-assignment provisions of qualified financial contracts are restored when more than fifty percent of the bridge company's equity is no longer held by the special trustee.

While the automatic stay is in place, the debtor and its affiliates are required to perform all payment and delivery obligations under the qualified financial contracts. Any failure to fulfill these obligations results in an automatic termination of the stay. Furthermore, any failure to fulfill these obligations during any period of time results in a breach of the relevant qualified financial contract.

In order to transfer a qualified financial contract to the bridge company, the terms of the contract must continue to be honored and all of the obligations must continue to be performed. Furthermore, all of the qualified financial contracts between the entity and the debtor and/or its affiliates must be transferred to the bridge company. This provision is intended to prevent against "cherry picking" transfers of only a select number of contracts. Additionally, the financial institution must transfer all related claims and collateral along with the to-be transferred derivative contracts. This provision ensures that the counterparty has all of its rights and collateral preserved at the bridge company.

Section 1188 is critical to ensure that the bridge company can continue to operate the debtor's business in the normal course following the transfer.

§ 1189. Licenses, permits, and registrations.

Provides that the bridge company will retain the debtor's and its affiliates' rights and obligations under the debtor's and its affiliates' licenses, permits and registrations. In other words, the bridge company will continue to operate under these contracts just as the debtor operated prior to the commencement of the bankruptcy. Furthermore, the bridge company will be subject to the same regulatory oversight as the debtor following the transfer. This section also overrides all nonbankruptcy laws to prevent the termination or modification of any federal, state or local license, permit, or registration that the debtor or an affiliate had immediately before the commencement of the case, if a request is made to transfer property of the estate under section 1185 and such default is based on certain *ipso facto* events.

§ 1190. Exemption from securities laws and special tax provisions.

Provides the same exemption granted to the securities (or equity) of a typical debtor company to the securities of the bridge company. Specifically, this provision clarifies that with respect to Bankruptcy Code section 1145 (which exempts the offer or sale of securities from certain federal, state and local laws requiring registration of such offer and sale if it occurs under a plan), a bridge company's security shall be deemed to be the security of the debtor's successor under a plan if the court approves the disclosure statement for the plan as having adequate information about the bridge company and its securities.

§ 1191. Inapplicability of certain avoiding powers.

Provides for an exemption from the avoidance powers contained in the Bankruptcy Code for the transfer from the debtor to the bridge company. In other words, this prevents a subchapter V transfer, or certain aspects of the transfer, from being unwound at a later date.

§ 1192. Consideration of Financial Stability.

Allows, but does not require, the bankruptcy court to consider the financial stability of the United States when rendering decisions related to a subchapter V case.

Section 4. Amendments to Title 28, United States Code.

§ 298. Judge for a case under Subchapter V of title 11.

Requires the Chief Justice of the United States to designate at least ten experienced bankruptcy judges to be available to hear subchapter V bankruptcy cases. Bankruptcy judges may request that they be considered for such designation by the Chief Justice. Further, this provision clarifies that the district courts will not have jurisdiction over the issues related to the appointment of a special trustee and the formation of the bridge company.

Changes in Existing Law Made by the Bill, as Reported

In compliance with clause 3(e) of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italics,

and existing law in which no change is proposed is shown in roman):

TITLE 11, UNITED STATES CODE

* * * * * * *

CHAPTER 1—GENERAL PROVISIONS

§ 101. Definitions

In this title the following definitions shall apply:

(1) The term "accountant" means accountant authorized under applicable law to practice public accounting, and includes professional accounting association, corporation, or partnership, if so authorized.

(2) The term "affiliate" means—

(A) entity that directly or indirectly owns, controls, or holds with power to vote, 20 percent or more of the outstanding voting securities of the debtor, other than an entity that holds such securities—

(i) in a fiduciary or agency capacity without sole discretionary power to vote such securities; or

(ii) solely to secure a debt, if such entity has not in fact exercised such power to vote;

(B) corporation 20 percent or more of whose outstanding voting securities are directly or indirectly owned, controlled, or held with power to vote, by the debtor, or by an entity that directly or indirectly owns, controls, or holds with power to vote, 20 percent or more of the outstanding voting securities of the debtor, other than an entity that holds such securities—

(i) in a fiduciary or agency capacity without sole discretionary power to vote such securities; or

(ii) solely to secure a debt, if such entity has not in fact exercised such power to vote;

(C) person whose business is operated under a lease or operating agreement by a debtor, or person substantially all of whose property is operated under an operating agreement with the debtor; or

(D) entity that operates the business or substantially all of the property of the debtor under a lease or operating agreement.

(3) The term "assisted person" means any person whose debts consist primarily of consumer debts and the value of whose nonexempt property is less than $150,000.

(4) The term "attorney" means attorney, professional law association, corporation, or partnership, authorized under applicable law to practice law.

(4A) The term "bankruptcy assistance" means any goods or services sold or otherwise provided to an assisted person with the express or implied purpose of providing information, advice, counsel, document preparation, or filing, or attendance at a creditors' meeting or appearing in a case or proceeding on behalf of another or providing legal representation with respect to a case or proceeding under this title.

(5) The term "claim" means—

(A) right to payment, whether or not such right is reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, legal, equitable, secured, or unsecured; or

(B) right to an equitable remedy for breach of performance if such breach gives rise to a right to payment, whether or not such right to an equitable remedy is reduced to judgment, fixed, contingent, matured, unmatured, disputed, undisputed, secured, or unsecured.

(6) The term "commodity broker" means futures commission merchant, foreign futures commission merchant, clearing organization, leverage transaction merchant, or commodity options dealer, as defined in section 761 of this title, with respect to which there is a customer, as defined in section 761 of this title.

(7) The term "community claim" means claim that arose before the commencement of the case concerning the debtor for which property of the kind specified in section 541(a)(2) of this title is liable, whether or not there is any such property at the time of the commencement of the case.

(7A) The term "commercial fishing operation" means—

(A) the catching or harvesting of fish, shrimp, lobsters, urchins, seaweed, shellfish, or other aquatic species or products of such species; or

(B) for purposes of section 109 and chapter 12, aquaculture activities consisting of raising for market any species or product described in subparagraph (A).

(7B) The term "commercial fishing vessel" means a vessel used by a family fisherman to carry out a commercial fishing operation.

(8) The term "consumer debt" means debt incurred by an individual primarily for a personal, family, or household purpose.

(9) The term "corporation"—

(A) includes—

(i) association having a power or privilege that a private corporation, but not an individual or a partnership, possesses;

(ii) partnership association organized under a law that makes only the capital subscribed responsible for the debts of such association;

(iii) joint-stock company;

(iv) unincorporated company or association; or

(v) business trust; but

(B) does not include limited partnership.

(9A) The term "covered financial corporation" means any corporation incorporated or organized under any Federal or State law, other than a stockbroker, a commodity broker, or an entity of the kind specified in paragraph (2) or (3) of section 109(b), that is—

(A) a bank holding company, as defined in section 2(a) of the Bank Holding Company Act of 1956; or

(B) a corporation that exists for the primary purpose of owning, controlling and financing its subsidiaries, that has

total consolidated assets of $50,000,000,000 or greater, and for which, in its most recently completed fiscal year—

(i) annual gross revenues derived by the corporation and all of its subsidiaries from activities that are financial in nature (as defined in section 4(k) of the Bank Holding Company Act of 1956) and, if applicable, from the ownership or control of one or more insured depository institutions, represents 85 percent or more of the consolidated annual gross revenues of the corporation; or

(ii) the consolidated assets of the corporation and all of its subsidiaries related to activities that are financial in nature (as defined in section 4(k) of the Bank Holding Company Act of 1956) and, if applicable, related to the ownership or control of one or more insured depository institutions, represents 85 percent or more of the consolidated assets of the corporation.

(10) The term "creditor" means—

(A) entity that has a claim against the debtor that arose at the time of or before the order for relief concerning the debtor;

(B) entity that has a claim against the estate of a kind specified in section 348(d), 502(f), 502(g), 502(h) or 502(i) of this title; or

(C) entity that has a community claim.

(10A) The term "current monthly income"—

(A) means the average monthly income from all sources that the debtor receives (or in a joint case the debtor and the debtor's spouse receive) without regard to whether such income is taxable income, derived during the 6-month period ending on—

(i) the last day of the calendar month immediately preceding the date of the commencement of the case if the debtor files the schedule of current income required by section 521(a)(1)(B)(ii); or

(ii) the date on which current income is determined by the court for purposes of this title if the debtor does not file the schedule of current income required by section 521(a)(1)(B)(ii); and

(B) includes any amount paid by any entity other than the debtor (or in a joint case the debtor and the debtor's spouse), on a regular basis for the household expenses of the debtor or the debtor's dependents (and in a joint case the debtor's spouse if not otherwise a dependent), but excludes benefits received under the Social Security Act, payments to victims of war crimes or crimes against humanity on account of their status as victims of such crimes, and payments to victims of international terrorism (as defined in section 2331 of title 18) or domestic terrorism (as defined in section 2331 of title 18) on account of their status as victims of such terrorism.

(11) The term "custodian" means—

(A) receiver or trustee of any of the property of the debtor, appointed in a case or proceeding not under this title;

(B) assignee under a general assignment for the benefit of the debtor's creditors; or

(C) trustee, receiver, or agent under applicable law, or under a contract, that is appointed or authorized to take charge of property of the debtor for the purpose of enforcing a lien against such property, or for the purpose of general administration of such property for the benefit of the debtor's creditors.

(12) The term "debt" means liability on a claim.

(12A) The term "debt relief agency" means any person who provides any bankruptcy assistance to an assisted person in return for the payment of money or other valuable consideration, or who is a bankruptcy petition preparer under section 110, but does not include—

(A) any person who is an officer, director, employee, or agent of a person who provides such assistance or of the bankruptcy petition preparer;

(B) a nonprofit organization that is exempt from taxation under section 501(c)(3) of the Internal Revenue Code of 1986;

(C) a creditor of such assisted person, to the extent that the creditor is assisting such assisted person to restructure any debt owed by such assisted person to the creditor;

(D) a depository institution (as defined in section 3 of the Federal Deposit Insurance Act) or any Federal credit union or State credit union (as those terms are defined in section 101 of the Federal Credit Union Act), or any affiliate or subsidiary of such depository institution or credit union; or

(E) an author, publisher, distributor, or seller of works subject to copyright protection under title 17, when acting in such capacity.

(13) The term "debtor" means person or municipality concerning which a case under this title has been commenced.

(13A) The term "debtor's principal residence"—

(A) means a residential structure if used as the principal residence by the debtor, including incidental property, without regard to whether that structure is attached to real property; and

(B) includes an individual condominium or cooperative unit, a mobile or manufactured home, or trailer if used as the principal residence by the debtor.

(14) The term "disinterested person" means a person that—

(A) is not a creditor, an equity security holder, or an insider;

(B) is not and was not, within 2 years before the date of the filing of the petition, a director, officer, or employee of the debtor; and

(C) does not have an interest materially adverse to the interest of the estate or of any class of creditors or equity security holders, by reason of any direct or indirect relationship to, connection with, or interest in, the debtor, or for any other reason.

(14A) The term "domestic support obligation" means a debt that accrues before, on, or after the date of the order for relief in a case under this title, including interest that accrues on

that debt as provided under applicable nonbankruptcy law notwithstanding any other provision of this title, that is—

(A) owed to or recoverable by—

(i) a spouse, former spouse, or child of the debtor or such child's parent, legal guardian, or responsible relative; or

(ii) a governmental unit;

(B) in the nature of alimony, maintenance, or support (including assistance provided by a governmental unit) of such spouse, former spouse, or child of the debtor or such child's parent, without regard to whether such debt is expressly so designated;

(C) established or subject to establishment before, on, or after the date of the order for relief in a case under this title, by reason of applicable provisions of—

(i) a separation agreement, divorce decree, or property settlement agreement;

(ii) an order of a court of record; or

(iii) a determination made in accordance with applicable nonbankruptcy law by a governmental unit; and

(D) not assigned to a nongovernmental entity, unless that obligation is assigned voluntarily by the spouse, former spouse, child of the debtor, or such child's parent, legal guardian, or responsible relative for the purpose of collecting the debt.

(15) The term "entity" includes person, estate, trust, governmental unit, and United States trustee.

(16) The term "equity security" means—

(A) share in a corporation, whether or not transferable or denominated "stock", or similar security;

(B) interest of a limited partner in a limited partnership; or

(C) warrant or right, other than a right to convert, to purchase, sell, or subscribe to a share, security, or interest of a kind specified in subparagraph (A) or (B) of this paragraph.

(17) The term "equity security holder" means holder of an equity security of the debtor.

(18) The term "family farmer" means—

(A) individual or individual and spouse engaged in a farming operation whose aggregate debts do not exceed $3,237,000 and not less than 50 percent of whose aggregate noncontingent, liquidated debts (excluding a debt for the principal residence of such individual or such individual and spouse unless such debt arises out of a farming operation), on the date the case is filed, arise out of a farming operation owned or operated by such individual or such individual and spouse, and such individual or such individual and spouse receive from such farming operation more than 50 percent of such individual's or such individual and spouse's gross income for—

(i) the taxable year preceding; or

(ii) each of the 2d and 3d taxable years preceding; the taxable year in which the case concerning such individual or such individual and spouse was filed; or

(B) corporation or partnership in which more than 50 percent of the outstanding stock or equity is held by one family, or by one family and the relatives of the members of such family, and such family or such relatives conduct the farming operation, and

(i) more than 80 percent of the value of its assets consists of assets related to the farming operation;

(ii) its aggregate debts do not exceed $3,237,000 and not less than 50 percent of its aggregate noncontingent, liquidated debts (excluding a debt for one dwelling which is owned by such corporation or partnership and which a shareholder or partner maintains as a principal residence, unless such debt arises out of a farming operation), on the date the case is filed, arise out of the farming operation owned or operated by such corporation or such partnership; and

(iii) if such corporation issues stock, such stock is not publicly traded.

(19) The term "family farmer with regular annual income" means family farmer whose annual income is sufficiently stable and regular to enable such family farmer to make payments under a plan under chapter 12 of this title.

(19A) The term "family fisherman" means—

(A) an individual or individual and spouse engaged in a commercial fishing operation—

(i) whose aggregate debts do not exceed $1,500,000 and not less than 80 percent of whose aggregate noncontingent, liquidated debts (excluding a debt for the principal residence of such individual or such individual and spouse, unless such debt arises out of a commercial fishing operation), on the date the case is filed, arise out of a commercial fishing operation owned or operated by such individual or such individual and spouse; and

(ii) who receive from such commercial fishing operation more than 50 percent of such individual's or such individual's and spouse's gross income for the taxable year preceding the taxable year in which the case concerning such individual or such individual and spouse was filed; or

(B) a corporation or partnership—

(i) in which more than 50 percent of the outstanding stock or equity is held by—

(I) 1 family that conducts the commercial fishing operation; or

(II) 1 family and the relatives of the members of such family, and such family or such relatives conduct the commercial fishing operation; and

(ii)(I) more than 80 percent of the value of its assets consists of assets related to the commercial fishing operation;

(II) its aggregate debts do not exceed $1,500,000 and not less than 80 percent of its aggregate noncontingent, liquidated debts (excluding a debt for 1 dwelling which is owned by such corporation or partnership and

which a shareholder or partner maintains as a principal residence, unless such debt arises out of a commercial fishing operation), on the date the case is filed, arise out of a commercial fishing operation owned or operated by such corporation or such partnership; and

(III) if such corporation issues stock, such stock is not publicly traded.

(19B) The term "family fisherman with regular annual income" means a family fisherman whose annual income is sufficiently stable and regular to enable such family fisherman to make payments under a plan under chapter 12 of this title.

(20) The term "farmer" means (except when such term appears in the term "family farmer") person that received more than 80 percent of such person's gross income during the taxable year of such person immediately preceding the taxable year of such person during which the case under this title concerning such person was commenced from a farming operation owned or operated by such person.

(21) The term "farming operation" includes farming, tillage of the soil, dairy farming, ranching, production or raising of crops, poultry, or livestock, and production of poultry or livestock products in an unmanufactured state.

(21A) The term "farmout agreement" means a written agreement in which—

(A) the owner of a right to drill, produce, or operate liquid or gaseous hydrocarbons on property agrees or has agreed to transfer or assign all or a part of such right to another entity; and

(B) such other entity (either directly or through its agents or its assigns), as consideration, agrees to perform drilling, reworking, recompleting, testing, or similar or related operations, to develop or produce liquid or gaseous hydrocarbons on the property.

(21B) The term "Federal depository institutions regulatory agency" means—

(A) with respect to an insured depository institution (as defined in section 3(c)(2) of the Federal Deposit Insurance Act) for which no conservator or receiver has been appointed, the appropriate Federal banking agency (as defined in section 3(q) of such Act);

(B) with respect to an insured credit union (including an insured credit union for which the National Credit Union Administration has been appointed conservator or liquidating agent), the National Credit Union Administration;

(C) with respect to any insured depository institution for which the Resolution Trust Corporation has been appointed conservator or receiver, the Resolution Trust Corporation; and

(D) with respect to any insured depository institution for which the Federal Deposit Insurance Corporation has been appointed conservator or receiver, the Federal Deposit Insurance Corporation.

(22) The term "financial institution" means—

(A) a Federal reserve bank, or an entity that is a commercial or savings bank, industrial savings bank, savings

and loan association, trust company, federally-insured credit union, or receiver, liquidating agent, or conservator for such entity and, when any such Federal reserve bank, receiver, liquidating agent, conservator or entity is acting as agent or custodian for a customer (whether or not a "customer", as defined in section 741) in connection with a securities contract (as defined in section 741) such customer; or

(B) in connection with a securities contract (as defined in section 741) an investment company registered under the Investment Company Act of 1940.

(22A) The term "financial participant" means—

(A) an entity that, at the time it enters into a securities contract, commodity contract, swap agreement, repurchase agreement, or forward contract, or at the time of the date of the filing of the petition, has one or more agreements or transactions described in paragraph (1), (2), (3), (4), (5), or (6) of section 561(a) with the debtor or any other entity (other than an affiliate) of a total gross dollar value of not less than $1,000,000,000 in notional or actual principal amount outstanding (aggregated across counterparties) at such time or on any day during the 15-month period preceding the date of the filing of the petition, or has gross mark-to-market positions of not less than $100,000,000 (aggregated across counterparties) in one or more such agreements or transactions with the debtor or any other entity (other than an affiliate) at such time or on any day during the 15-month period preceding the date of the filing of the petition; or

(B) a clearing organization (as defined in section 402 of the Federal Deposit Insurance Corporation Improvement Act of 1991).

(23) The term "foreign proceeding" means a collective judicial or administrative proceeding in a foreign country, including an interim proceeding, under a law relating to insolvency or adjustment of debt in which proceeding the assets and affairs of the debtor are subject to control or supervision by a foreign court, for the purpose of reorganization or liquidation.

(24) The term "foreign representative" means a person or body, including a person or body appointed on an interim basis, authorized in a foreign proceeding to administer the reorganization or the liquidation of the debtor's assets or affairs or to act as a representative of such foreign proceeding.

(25) The term "forward contract" means—

(A) a contract (other than a commodity contract, as defined in section 761) for the purchase, sale, or transfer of a commodity, as defined in section 761(8) of this title, or any similar good, article, service, right, or interest which is presently or in the future becomes the subject of dealing in the forward contract trade, or product or byproduct thereof, with a maturity date more than two days after the date the contract is entered into, including, but not limited to, a repurchase or reverse repurchase transaction (whether or not such repurchase or reverse repurchase transaction is a "repurchase agreement", as defined in this sec-

tion) consignment, lease, swap, hedge transaction, deposit, loan, option, allocated transaction, unallocated transaction, or any other similar agreement;

(B) any combination of agreements or transactions referred to in subparagraphs (A) and (C);

(C) any option to enter into an agreement or transaction referred to in subparagraph (A) or (B);

(D) a master agreement that provides for an agreement or transaction referred to in subparagraph (A), (B), or (C), together with all supplements to any such master agreement, without regard to whether such master agreement provides for an agreement or transaction that is not a forward contract under this paragraph, except that such master agreement shall be considered to be a forward contract under this paragraph only with respect to each agreement or transaction under such master agreement that is referred to in subparagraph (A), (B), or (C); or

(E) any security agreement or arrangement, or other credit enhancement related to any agreement or transaction referred to in subparagraph (A), (B), (C), or (D), including any guarantee or reimbursement obligation by or to a forward contract merchant or financial participant in connection with any agreement or transaction referred to in any such subparagraph, but not to exceed the damages in connection with any such agreement or transaction, measured in accordance with section 562.

(26) The term "forward contract merchant" means a Federal reserve bank, or an entity the business of which consists in whole or in part of entering into forward contracts as or with merchants in a commodity (as defined in section 761) or any similar good, article, service, right, or interest which is presently or in the future becomes the subject of dealing in the forward contract trade.

(27) The term "governmental unit" means United States; State; Commonwealth; District; Territory; municipality; foreign state; department, agency, or instrumentality of the United States (but not a United States trustee while serving as a trustee in a case under this title), a State, a Commonwealth, a District, a Territory, a municipality, or a foreign state; or other foreign or domestic government.

(27A) The term "health care business"—

(A) means any public or private entity (without regard to whether that entity is organized for profit or not for profit) that is primarily engaged in offering to the general public facilities and services for—

(i) the diagnosis or treatment of injury, deformity, or disease; and

(ii) surgical, drug treatment, psychiatric, or obstetric care; and

(B) includes—

(i) any—

(I) general or specialized hospital;

(II) ancillary ambulatory, emergency, or surgical treatment facility;

(III) hospice;

(IV) home health agency; and

(V) other health care institution that is similar to an entity referred to in subclause (I), (II), (III), or (IV); and

(ii) any long-term care facility, including any—

(I) skilled nursing facility;

(II) intermediate care facility;

(III) assisted living facility;

(IV) home for the aged;

(V) domiciliary care facility; and

(VI) health care institution that is related to a facility referred to in subclause (I), (II), (III), (IV), or (V), if that institution is primarily engaged in offering room, board, laundry, or personal assistance with activities of daily living and incidentals to activities of daily living.

(27B) The term "incidental property" means, with respect to a debtor's principal residence—

(A) property commonly conveyed with a principal residence in the area where the real property is located;

(B) all easements, rights, appurtenances, fixtures, rents, royalties, mineral rights, oil or gas rights or profits, water rights, escrow funds, or insurance proceeds; and

(C) all replacements or additions.

(28) The term "indenture" means mortgage, deed of trust, or indenture, under which there is outstanding a security, other than a voting-trust certificate, constituting a claim against the debtor, a claim secured by a lien on any of the debtor's property, or an equity security of the debtor.

(29) The term "indenture trustee" means trustee under an indenture.

(30) The term "individual with regular income" means individual whose income is sufficiently stable and regular to enable such individual to make payments under a plan under chapter 13 of this title, other than a stockbroker or a commodity broker.

(31) The term "insider" includes—

(A) if the debtor is an individual—

(i) relative of the debtor or of a general partner of the debtor;

(ii) partnership in which the debtor is a general partner;

(iii) general partner of the debtor; or

(iv) corporation of which the debtor is a director, officer, or person in control;

(B) if the debtor is a corporation—

(i) director of the debtor;

(ii) officer of the debtor;

(iii) person in control of the debtor;

(iv) partnership in which the debtor is a general partner;

(v) general partner of the debtor; or

(vi) relative of a general partner, director, officer, or person in control of the debtor;

(C) if the debtor is a partnership—

(i) general partner in the debtor;

(ii) relative of a general partner in, general partner of, or person in control of the debtor;

(iii) partnership in which the debtor is a general partner;

(iv) general partner of the debtor; or

(v) person in control of the debtor;

(D) if the debtor is a municipality, elected official of the debtor or relative of an elected official of the debtor;

(E) affiliate, or insider of an affiliate as if such affiliate were the debtor; and

(F) managing agent of the debtor.

(32) The term "insolvent" means—

(A) with reference to an entity other than a partnership and a municipality, financial condition such that the sum of such entity's debts is greater than all of such entity's property, at a fair valuation, exclusive of—

(i) property transferred, concealed, or removed with intent to hinder, delay, or defraud such entity's creditors; and

(ii) property that may be exempted from property of the estate under section 522 of this title;

(B) with reference to a partnership, financial condition such that the sum of such partnership's debts is greater than the aggregate of, at a fair valuation—

(i) all of such partnership's property, exclusive of property of the kind specified in subparagraph (A)(i) of this paragraph; and

(ii) the sum of the excess of the value of each general partner's nonpartnership property, exclusive of property of the kind specified in subparagraph (A) of this paragraph, over such partner's nonpartnership debts; and

(C) with reference to a municipality, financial condition such that the municipality is—

(i) generally not paying its debts as they become due unless such debts are the subject of a bona fide dispute; or

(ii) unable to pay its debts as they become due.

(33) The term "institution-affiliated party"—

(A) with respect to an insured depository institution (as defined in section 3(c)(2) of the Federal Deposit Insurance Act), has the meaning given it in section 3(u) of the Federal Deposit Insurance Act; and

(B) with respect to an insured credit union, has the meaning given it in section 206(r) of the Federal Credit Union Act.

(34) The term "insured credit union" has the meaning given it in section 101(7) of the Federal Credit Union Act.

(35) The term "insured depository institution"—

(A) has the meaning given it in section 3(c)(2) of the Federal Deposit Insurance Act; and

(B) includes an insured credit union (except in the case of paragraphs (21B) and (33)(A) of this subsection).

(35A) The term "intellectual property" means—

(A) trade secret;

(B) invention, process, design, or plant protected under title 35;

(C) patent application;

(D) plant variety;

(E) work of authorship protected under title 17; or

(F) mask work protected under chapter 9 of title 17;

to the extent protected by applicable nonbankruptcy law.

(36) The term "judicial lien" means lien obtained by judgment, levy, sequestration, or other legal or equitable process or proceeding.

(37) The term "lien" means charge against or interest in property to secure payment of a debt or performance of an obligation.

(38) The term "margin payment" means, for purposes of the forward contract provisions of this title, payment or deposit of cash, a security or other property, that is commonly known in the forward contract trade as original margin, initial margin, maintenance margin, or variation margin, including mark-to-market payments, or variation payments.

(38A) The term "master netting agreement"—

(A) means an agreement providing for the exercise of rights, including rights of netting, setoff, liquidation, termination, acceleration, or close out, under or in connection with one or more contracts that are described in any one or more of paragraphs (1) through (5) of section 561(a), or any security agreement or arrangement or other credit enhancement related to one or more of the foregoing, including any guarantee or reimbursement obligation related to 1 or more of the foregoing; and

(B) if the agreement contains provisions relating to agreements or transactions that are not contracts described in paragraphs (1) through (5) of section 561(a), shall be deemed to be a master netting agreement only with respect to those agreements or transactions that are described in any one or more of paragraphs (1) through (5) of section 561(a).

(38B) The term "master netting agreement participant" means an entity that, at any time before the date of the filing of the petition, is a party to an outstanding master netting agreement with the debtor.

(39) The term "mask work" has the meaning given it in section 901(a)(2) of title 17.

(39A) The term "median family income" means for any year—

(A) the median family income both calculated and reported by the Bureau of the Census in the then most recent year; and

(B) if not so calculated and reported in the then current year, adjusted annually after such most recent year until the next year in which median family income is both calculated and reported by the Bureau of the Census, to reflect the percentage change in the Consumer Price Index for All Urban Consumers during the period of years occur-

ring after such most recent year and before such current year.

(40) The term "municipality" means political subdivision or public agency or instrumentality of a State.

(40A) The term "patient" means any individual who obtains or receives services from a health care business.

(40B) The term "patient records" means any record relating to a patient, including a written document or a record recorded in a magnetic, optical, or other form of electronic medium.

(41) The term "person" includes individual, partnership, and corporation, but does not include governmental unit, except that a governmental unit that—

(A) acquires an asset from a person—

(i) as a result of the operation of a loan guarantee agreement; or

(ii) as receiver or liquidating agent of a person;

(B) is a guarantor of a pension benefit payable by or on behalf of the debtor or an affiliate of the debtor; or

(C) is the legal or beneficial owner of an asset of—

(i) an employee pension benefit plan that is a governmental plan, as defined in section 414(d) of the Internal Revenue Code of 1986; or

(ii) an eligible deferred compensation plan, as defined in section 457(b) of the Internal Revenue Code of 1986;

shall be considered, for purposes of section 1102 of this title, to be a person with respect to such asset or such benefit.

(41A) The term "personally identifiable information" means—

(A) if provided by an individual to the debtor in connection with obtaining a product or a service from the debtor primarily for personal, family, or household purposes—

(i) the first name (or initial) and last name of such individual, whether given at birth or time of adoption, or resulting from a lawful change of name;

(ii) the geographical address of a physical place of residence of such individual;

(iii) an electronic address (including an e-mail address) of such individual;

(iv) a telephone number dedicated to contacting such individual at such physical place of residence;

(v) a social security account number issued to such individual; or

(vi) the account number of a credit card issued to such individual; or

(B) if identified in connection with 1 or more of the items of information specified in subparagraph (A)—

(i) a birth date, the number of a certificate of birth or adoption, or a place of birth; or

(ii) any other information concerning an identified individual that, if disclosed, will result in contacting or identifying such individual physically or electronically.

(42) The term "petition" means petition filed under section 301, 302, 303 and 1504 of this title, as the case may be, commencing a case under this title.

(42A) The term "production payment" means a term overriding royalty satisfiable in cash or in kind—

(A) contingent on the production of a liquid or gaseous hydrocarbon from particular real property; and

(B) from a specified volume, or a specified value, from the liquid or gaseous hydrocarbon produced from such property, and determined without regard to production costs.

(43) The term "purchaser" means transferee of a voluntary transfer, and includes immediate or mediate transferee of such a transferee.

(44) The term "railroad" means common carrier by railroad engaged in the transportation of individuals or property or owner of trackage facilities leased by such a common carrier.

(45) The term "relative" means individual related by affinity or consanguinity within the third degree as determined by the common law, or individual in a step or adoptive relationship within such third degree.

(46) The term "repo participant" means an entity that, at any time before the filing of the petition, has an outstanding repurchase agreement with the debtor.

(47) The term "repurchase agreement" (which definition also applies to a reverse repurchase agreement)—

(A) means—

(i) an agreement, including related terms, which provides for the transfer of one or more certificates of deposit, mortgage related securities (as defined in section 3 of the Securities Exchange Act of 1934), mortgage loans, interests in mortgage related securities or mortgage loans, eligible bankers' acceptances, qualified foreign government securities (defined as a security that is a direct obligation of, or that is fully guaranteed by, the central government of a member of the Organization for Economic Cooperation and Development), or securities that are direct obligations of, or that are fully guaranteed by, the United States or any agency of the United States against the transfer of funds by the transferee of such certificates of deposit, eligible bankers' acceptances, securities, mortgage loans, or interests, with a simultaneous agreement by such transferee to transfer to the transferor thereof certificates of deposit, eligible bankers' acceptance, securities, mortgage loans, or interests of the kind described in this clause, at a date certain not later than 1 year after such transfer or on demand, against the transfer of funds;

(ii) any combination of agreements or transactions referred to in clauses (i) and (iii);

(iii) an option to enter into an agreement or transaction referred to in clause (i) or (ii);

(iv) a master agreement that provides for an agreement or transaction referred to in clause (i), (ii), or (iii), together with all supplements to any such master agreement, without regard to whether such master agreement provides for an agreement or transaction

that is not a repurchase agreement under this paragraph, except that such master agreement shall be considered to be a repurchase agreement under this paragraph only with respect to each agreement or transaction under the master agreement that is referred to in clause (i), (ii), or (iii); or

(v) any security agreement or arrangement or other credit enhancement related to any agreement or transaction referred to in clause (i), (ii), (iii), or (iv), including any guarantee or reimbursement obligation by or to a repo participant or financial participant in connection with any agreement or transaction referred to in any such clause, but not to exceed the damages in connection with any such agreement or transaction, measured in accordance with section 562 of this title; and

(B) does not include a repurchase obligation under a participation in a commercial mortgage loan.

(48) The term "securities clearing agency" means person that is registered as a clearing agency under section 17A of the Securities Exchange Act of 1934, or exempt from such registration under such section pursuant to an order of the Securities and Exchange Commission, or whose business is confined to the performance of functions of a clearing agency with respect to exempted securities, as defined in section 3(a)(12) of such Act for the purposes of such section 17A.

(48A) The term "securities self regulatory organization" means either a securities association registered with the Securities and Exchange Commission under section 15A of the Securities Exchange Act of 1934 or a national securities exchange registered with the Securities and Exchange Commission under section 6 of the Securities Exchange Act of 1934.

(49) The term "security"—

(A) includes—

(i) note;

(ii) stock;

(iii) treasury stock;

(iv) bond;

(v) debenture;

(vi) collateral trust certificate;

(vii) pre-organization certificate or subscription;

(viii) transferable share;

(ix) voting-trust certificate;

(x) certificate of deposit;

(xi) certificate of deposit for security;

(xii) investment contract or certificate of interest or participation in a profit-sharing agreement or in an oil, gas, or mineral royalty or lease, if such contract or interest is required to be the subject of a registration statement filed with the Securities and Exchange Commission under the provisions of the Securities Act of 1933, or is exempt under section 3(b) of such Act from the requirement to file such a statement;

(xiii) interest of a limited partner in a limited partnership;

(xiv) other claim or interest commonly known as "security"; and

(xv) certificate of interest or participation in, temporary or interim certificate for, receipt for, or warrant or right to subscribe to or purchase or sell, a security; but

(B) does not include—

(i) currency, check, draft, bill of exchange, or bank letter of credit;

(ii) leverage transaction, as defined in section 761 of this title;

(iii) commodity futures contract or forward contract;

(iv) option, warrant, or right to subscribe to or purchase or sell a commodity futures contract;

(v) option to purchase or sell a commodity;

(vi) contract or certificate of a kind specified in subparagraph (A)(xii) of this paragraph that is not required to be the subject of a registration statement filed with the Securities and Exchange Commission and is not exempt under section 3(b) of the Securities Act of 1933 from the requirement to file such a statement; or

(vii) debt or evidence of indebtedness for goods sold and delivered or services rendered.

(50) The term "security agreement" means agreement that creates or provides for a security interest.

(51) The term "security interest" means lien created by an agreement.

(51A) The term "settlement payment" means, for purposes of the forward contract provisions of this title, a preliminary settlement payment, a partial settlement payment, an interim settlement payment, a settlement payment on account, a final settlement payment, a net settlement payment, or any other similar payment commonly used in the forward contract trade.

(51B) The term "single asset real estate" means real property constituting a single property or project, other than residential real property with fewer than 4 residential units, which generates substantially all of the gross income of a debtor who is not a family farmer and on which no substantial business is being conducted by a debtor other than the business of operating the real property and activities incidental thereto.

(51C) The term "small business case" means a case filed under chapter 11 of this title in which the debtor is a small business debtor.

(51D) The term "small business debtor"—

(A) subject to subparagraph (B), means a person engaged in commercial or business activities (including any affiliate of such person that is also a debtor under this title and excluding a person whose primary activity is the business of owning or operating real property or activities incidental thereto) that has aggregate noncontingent liquidated secured and unsecured debts as of the date of the filing of the petition or the date of the order for relief in an amount not more than $2,000,000 (excluding debts owed to 1 or more affiliates or insiders) for a case in which

the United States trustee has not appointed under section 1102(a)(1) a committee of unsecured creditors or where the court has determined that the committee of unsecured creditors is not sufficiently active and representative to provide effective oversight of the debtor; and

(B) does not include any member of a group of affiliated debtors that has aggregate noncontingent liquidated secured and unsecured debts in an amount greater than $2,000,000 (excluding debt owed to 1 or more affiliates or insiders).

(52) The term "State" includes the District of Columbia and Puerto Rico, except for the purpose of defining who may be a debtor under chapter 9 of this title.

(53) The term "statutory lien" means lien arising solely by force of a statute on specified circumstances or conditions, or lien of distress for rent, whether or not statutory, but does not include security interest or judicial lien, whether or not such interest or lien is provided by or is dependent on a statute and whether or not such interest or lien is made fully effective by statute.

(53A) The term "stockbroker" means person—

(A) with respect to which there is a customer, as defined in section 741 of this title; and

(B) that is engaged in the business of effecting transactions in securities—

(i) for the account of others; or

(ii) with members of the general public, from or for such person's own account.

(53B) The term "swap agreement"—

(A) means—

(i) any agreement, including the terms and conditions incorporated by reference in such agreement, which is—

(I) an interest rate swap, option, future, or forward agreement, including a rate floor, rate cap, rate collar, cross-currency rate swap, and basis swap;

(II) a spot, same day-tomorrow, tomorrow-next, forward, or other foreign exchange, precious metals, or other commodity agreement;

(III) a currency swap, option, future, or forward agreement;

(IV) an equity index or equity swap, option, future, or forward agreement;

(V) a debt index or debt swap, option, future, or forward agreement;

(VI) a total return, credit spread or credit swap, option, future, or forward agreement;

(VII) a commodity index or a commodity swap, option, future, or forward agreement;

(VIII) a weather swap, option, future, or forward agreement;

(IX) an emissions swap, option, future, or forward agreement; or

(X) an inflation swap, option, future, or forward agreement;

(ii) any agreement or transaction that is similar to any other agreement or transaction referred to in this paragraph and that—

(I) is of a type that has been, is presently, or in the future becomes, the subject of recurrent dealings in the swap or other derivatives markets (including terms and conditions incorporated by reference therein); and

(II) is a forward, swap, future, option, or spot transaction on one or more rates, currencies, commodities, equity securities, or other equity instruments, debt securities or other debt instruments, quantitative measures associated with an occurrence, extent of an occurrence, or contingency associated with a financial, commercial, or economic consequence, or economic or financial indices or measures of economic or financial risk or value;

(iii) any combination of agreements or transactions referred to in this subparagraph;

(iv) any option to enter into an agreement or transaction referred to in this subparagraph;

(v) a master agreement that provides for an agreement or transaction referred to in clause (i), (ii), (iii), or (iv), together with all supplements to any such master agreement, and without regard to whether the master agreement contains an agreement or transaction that is not a swap agreement under this paragraph, except that the master agreement shall be considered to be a swap agreement under this paragraph only with respect to each agreement or transaction under the master agreement that is referred to in clause (i), (ii), (iii), or (iv); or

(vi) any security agreement or arrangement or other credit enhancement related to any agreements or transactions referred to in clause (i) through (v), including any guarantee or reimbursement obligation by or to a swap participant or financial participant in connection with any agreement or transaction referred to in any such clause, but not to exceed the damages in connection with any such agreement or transaction, measured in accordance with section 562; and

(B) is applicable for purposes of this title only, and shall not be construed or applied so as to challenge or affect the characterization, definition, or treatment of any swap agreement under any other statute, regulation, or rule, including the Gramm-Leach-Bliley Act, the Legal Certainty for Bank Products Act of 2000, the securities laws (as such term is defined in section 3(a)(47) of the Securities Exchange Act of 1934) and the Commodity Exchange Act.

(53C) The term "swap participant" means an entity that, at any time before the filing of the petition, has an outstanding swap agreement with the debtor.

(56A) The term "term overriding royalty" means an interest in liquid or gaseous hydrocarbons in place or to be produced from particular real property that entitles the owner thereof to a share of production, or the value thereof, for a term limited by time, quantity, or value realized.

(53D) The term "timeshare plan" means and shall include that interest purchased in any arrangement, plan, scheme, or similar device, but not including exchange programs, whether by membership, agreement, tenancy in common, sale, lease, deed, rental agreement, license, right to use agreement, or by any other means, whereby a purchaser, in exchange for consideration, receives a right to use accommodations, facilities, or recreational sites, whether improved or unimproved, for a specific period of time less than a full year during any given year, but not necessarily for consecutive years, and which extends for a period of more than three years. A "timeshare interest" is that interest purchased in a timeshare plan which grants the purchaser the right to use and occupy accommodations, facilities, or recreational sites, whether improved or unimproved, pursuant to a timeshare plan.

(54) The term "transfer" means—

(A) the creation of a lien;

(B) the retention of title as a security interest;

(C) the foreclosure of a debtor's equity of redemption; or

(D) each mode, direct or indirect, absolute or conditional, voluntary or involuntary, of disposing of or parting with—

(i) property; or

(ii) an interest in property.

(54A) The term "uninsured State member bank" means a State member bank (as defined in section 3 of the Federal Deposit Insurance Act) the deposits of which are not insured by the Federal Deposit Insurance Corporation.

(55) The term "United States", when used in a geographical sense, includes all locations where the judicial jurisdiction of the United States extends, including territories and possessions of the United States.

* * * * * * *

§ 103. Applicability of chapters

(a) Except as provided in section 1161 of this title, chapters 1, 3, and 5 of this title apply in a case under chapter 7, 11, 12, or 13 of this title, and this chapter, sections 307, 362(o), 555 through 557, and 559 through 562 apply in a case under chapter 15.

(b) Subchapters I and II of chapter 7 of this title apply only in a case under such chapter.

(c) Subchapter III of chapter 7 of this title applies only in a case under such chapter concerning a stockbroker.

(d) Subchapter IV of chapter 7 of this title applies only in a case under such chapter concerning a commodity broker.

(e) SCOPE OF APPLICATION.—Subchapter V of chapter 7 of this title shall apply only in a case under such chapter concerning the liquidation of an uninsured State member bank, or a corporation organized under section 25A of the Federal Reserve Act, which operates, or operates as, a multilateral clearing organization pursu-

ant to section 409 of the Federal Deposit Insurance Corporation Improvement Act of 1991.

(f) Except as provided in section 901 of this title, only chapters 1 and 9 of this title apply in a case under such chapter 9.

(g) Except as provided in section 901 of this title, subchapters I, II, and III of chapter 11 of this title apply only in a case under such chapter.

(h) Subchapter IV of chapter 11 of this title applies only in a case under such chapter concerning a railroad.

(i) Chapter 13 of this title applies only in a case under such chapter.

(j) Chapter 12 of this title applies only in a case under such chapter.

(k) Chapter 15 applies only in a case under such chapter, except that—

(1) sections 1505, 1513, and 1514 apply in all cases under this title; and

(2) section 1509 applies whether or not a case under this title is pending.

(l) Subchapter V of chapter 11 of this title applies only in a case under chapter 11 concerning a covered financial corporation.

* * * * * * *

§ 109. Who may be a debtor

(a) Notwithstanding any other provision of this section, only a person that resides or has a domicile, a place of business, or property in the United States, or a municipality, may be a debtor under this title.

(b) A person may be a debtor under chapter 7 of this title only if such person is not—

(1) a railroad;

(2) a domestic insurance company, bank, savings bank, cooperative bank, savings and loan association, building and loan association, homestead association, a New Markets Venture Capital company as defined in section 351 of the Small Business Investment Act of 1958, a small business investment company licensed by the Small Business Administration under section 301 of the Small Business Investment Act of 1958, credit union, or industrial bank or similar institution which is an insured bank as defined in section 3(h) of the Federal Deposit Insurance Act, except that an uninsured State member bank, or a corporation organized under section 25A of the Federal Reserve Act, which operates, or operates as, a multilateral clearing organization pursuant to section 409 of the Federal Deposit Insurance Corporation Improvement Act of 1991 may be a debtor if a petition is filed at the direction of the Board of Governors of the Federal Reserve System; **[**or**]**

(3)(A) a foreign insurance company, engaged in such business in the United States; or

(B) a foreign bank, savings bank, cooperative bank, savings and loan association, building and loan association, or credit union, that has a branch or agency (as defined in section 1(b) of the International Banking Act of 1978) in the United States**[**.**]***; or*

(4) a covered financial corporation.

(c) An entity may be a debtor under chapter 9 of this title if and only if such entity—

(1) is a municipality;

(2) is specifically authorized, in its capacity as a municipality or by name, to be a debtor under such chapter by State law, or by a governmental officer or organization empowered by State law to authorize such entity to be a debtor under such chapter;

(3) is insolvent;

(4) desires to effect a plan to adjust such debts; and

(5)(A) has obtained the agreement of creditors holding at least a majority in amount of the claims of each class that such entity intends to impair under a plan in a case under such chapter;

(B) has negotiated in good faith with creditors and has failed to obtain the agreement of creditors holding at least a majority in amount of the claims of each class that such entity intends to impair under a plan in a case under such chapter;

(C) is unable to negotiate with creditors because such negotiation is impracticable; or

(D) reasonably believes that a creditor may attempt to obtain a transfer that is avoidable under section 547 of this title.

(d) Only a railroad, a person that may be a debtor under chapter 7 of this title (except a stockbroker or a commodity broker), [and] an uninsured State member bank, [or] a corporation organized under section 25A of the Federal Reserve Act, which operates, or operates as, a multilateral clearing organization pursuant to section 409 of the Federal Deposit Insurance Corporation Improvement Act of 1991*, or a covered financial corporation* may be a debtor under chapter 11 of this title.

(e) Only an individual with regular income that owes, on the date of the filing of the petition, noncontingent, liquidated, unsecured debts of less than $250,000 and noncontingent, liquidated, secured debts of less than $750,000, or an individual with regular income and such individual's spouse, except a stockbroker or a commodity broker, that owe, on the date of the filing of the petition, noncontingent, liquidated, unsecured debts that aggregate less than $250,000 and noncontingent, liquidated, secured debts of less than $750,000 may be a debtor under chapter 13 of this title.

(f) Only a family farmer or family fisherman with regular annual income may be a debtor under chapter 12 of this title.

(g) Notwithstanding any other provision of this section, no individual or family farmer may be a debtor under this title who has been a debtor in a case pending under this title at any time in the preceding 180 days if—

(1) the case was dismissed by the court for willful failure of the debtor to abide by orders of the court, or to appear before the court in proper prosecution of the case; or

(2) the debtor requested and obtained the voluntary dismissal of the case following the filing of a request for relief from the automatic stay provided by section 362 of this title.

(h)(1) Subject to paragraphs (2) and (3), and notwithstanding any other provision of this section other than paragraph (4) of this subsection, an individual may not be a debtor under this title unless such individual has, during the 180-day period ending on the date

of filing of the petition by such individual, received from an approved nonprofit budget and credit counseling agency described in section 111(a) an individual or group briefing (including a briefing conducted by telephone or on the Internet) that outlined the opportunities for available credit counseling and assisted such individual in performing a related budget analysis.

(2)(A) Paragraph (1) shall not apply with respect to a debtor who resides in a district for which the United States trustee (or the bankruptcy administrator, if any) determines that the approved nonprofit budget and credit counseling agencies for such district are not reasonably able to provide adequate services to the additional individuals who would otherwise seek credit counseling from such agencies by reason of the requirements of paragraph (1).

(B) The United States trustee (or the bankruptcy administrator, if any) who makes a determination described in subparagraph (A) shall review such determination not later than 1 year after the date of such determination, and not less frequently than annually thereafter. Notwithstanding the preceding sentence, a nonprofit budget and credit counseling agency may be disapproved by the United States trustee (or the bankruptcy administrator, if any) at any time.

(3)(A) Subject to subparagraph (B), the requirements of paragraph (1) shall not apply with respect to a debtor who submits to the court a certification that—

(i) describes exigent circumstances that merit a waiver of the requirements of paragraph (1);

(ii) states that the debtor requested credit counseling services from an approved nonprofit budget and credit counseling agency, but was unable to obtain the services referred to in paragraph (1) during the 7-day period beginning on the date on which the debtor made that request; and

(iii) is satisfactory to the court.

(B) With respect to a debtor, an exemption under subparagraph (A) shall cease to apply to that debtor on the date on which the debtor meets the requirements of paragraph (1), but in no case may the exemption apply to that debtor after the date that is 30 days after the debtor files a petition, except that the court, for cause, may order an additional 15 days.

(4) The requirements of paragraph (1) shall not apply with respect to a debtor whom the court determines, after notice and hearing, is unable to complete those requirements because of incapacity, disability, or active military duty in a military combat zone. For the purposes of this paragraph, incapacity means that the debtor is impaired by reason of mental illness or mental deficiency so that he is incapable of realizing and making rational decisions with respect to his financial responsibilities; and "disability" means that the debtor is so physically impaired as to be unable, after reasonable effort, to participate in an in person, telephone, or Internet briefing required under paragraph (1).

* * * * * * *

CHAPTER 3—CASE ADMINISTRATION

* * * * * * *

SUBCHAPTER II—OFFICERS

* * * * * * *

§ 322. Qualification of trustee

(a) Except as provided in subsection (b)(1), a person selected under section 701, 702, 703, 1104, 1163, 1202, or 1302 of this title to serve as trustee in a case under this title qualifies if before seven days after such selection, and before beginning official duties, such person has filed with the court a bond in favor of the United States conditioned on the faithful performance of such official duties.

(b)(1) The United States trustee qualifies wherever such trustee serves as trustee in a case under this title.

(2) [The] *In cases under subchapter V, the United States trustee shall recommend to the court, and in all other cases, the* United States trustee shall determine—

(A) the amount of a bond required to be filed under subsection (a) of this section; and

(B) the sufficiency of the surety on such bond.

(c) A trustee is not liable personally or on such trustee's bond in favor of the United States for any penalty or forfeiture incurred by the debtor.

(d) A proceeding on a trustee's bond may not be commenced after two years after the date on which such trustee was discharged.

* * * * * * *

CHAPTER 7—LIQUIDATION

* * * * * * *

SUBCHAPTER II—COLLECTION, LIQUIDATION, AND DISTRIBUTION OF THE ESTATE

* * * * * * *

§ 726. Distribution of property of the estate

(a) Except as provided in section 510 of this title, property of the estate shall be distributed—

(1) first, *in payment of any unpaid fees, costs, and expenses of a special trustee appointed under section 1186, and then* in payment of claims of the kind specified in, and in the order specified in, section 507 of this title, proof of which is timely filed under section 501 of this title or tardily filed on or before the earlier of—

(A) the date that is 10 days after the mailing to creditors of the summary of the trustee's final report; or

(B) the date on which the trustee commences final distribution under this section;

(2) second, in payment of any allowed unsecured claim, other than a claim of a kind specified in paragraph (1), (3), or (4) of this subsection, proof of which is—

(A) timely filed under section 501(a) of this title;

(B) timely filed under section 501(b) or 501(c) of this title; or

(C) tardily filed under section 501(a) of this title, if—

(i) the creditor that holds such claim did not have notice or actual knowledge of the case in time for timely filing of a proof of such claim under section 501(a) of this title; and

(ii) proof of such claim is filed in time to permit payment of such claim;

(3) third, in payment of any allowed unsecured claim proof of which is tardily filed under section 501(a) of this title, other than a claim of the kind specified in paragraph (2)(C) of this subsection;

(4) fourth, in payment of any allowed claim, whether secured or unsecured, for any fine, penalty, or forfeiture, or for multiple, exemplary, or punitive damages, arising before the earlier of the order for relief or the appointment of a trustee, to the extent that such fine, penalty, forfeiture, or damages are not compensation for actual pecuniary loss suffered by the holder of such claim;

(5) fifth, in payment of interest at the legal rate from the date of the filing of the petition, on any claim paid under paragraph (1), (2), (3), or (4) of this subsection; and

(6) sixth, to the debtor.

(b) Payment on claims of a kind specified in paragraph (1), (2), (3), (4), (5), (6), (7), (8), (9), or (10) of section 507(a) of this title, or in paragraph (2), (3), (4), or (5) of subsection (a) of this section, shall be made pro rata among claims of the kind specified in each such particular paragraph, except that in a case that has been converted to this chapter under section 1112, 1208, or 1307 of this title, a claim allowed under section 503(b) of this title incurred under this chapter after such conversion has priority over a claim allowed under section 503(b) of this title incurred under any other chapter of this title or under this chapter before such conversion and over any expenses of a custodian superseded under section 543 of this title.

(c) Notwithstanding subsections (a) and (b) of this section, if there is property of the kind specified in section 541(a)(2) of this title, or proceeds of such property, in the estate, such property or proceeds shall be segregated from other property of the estate, and such property or proceeds and other property of the estate shall be distributed as follows:

(1) Claims allowed under section 503 of this title shall be paid either from property of the kind specified in section 541(a)(2) of this title, or from other property of the estate, as the interest of justice requires.

(2) Allowed claims, other than claims allowed under section 503 of this title, shall be paid in the order specified in subsection (a) of this section, and, with respect to claims of a kind specified in a particular paragraph of section 507 of this title or subsection (a) of this section, in the following order and manner:

(A) First, community claims against the debtor or the debtor's spouse shall be paid from property of the kind specified in section 541(a)(2) of this title, except to the extent that such property is solely liable for debts of the debtor.

(B) Second, to the extent that community claims against the debtor are not paid under subparagraph (A) of this paragraph, such community claims shall be paid from property of the kind specified in section 541(a)(2) of this title that is solely liable for debts of the debtor.

(C) Third, to the extent that all claims against the debtor including community claims against the debtor are not paid under subparagraph (A) or (B) of this paragraph such claims shall be paid from property of the estate other than property of the kind specified in section 541(a)(2) of this title.

(D) Fourth, to the extent that community claims against the debtor or the debtor's spouse are not paid under subparagraph (A), (B), or (C) of this paragraph, such claims shall be paid from all remaining property of the estate.

* * * * * * *

CHAPTER 11—REORGANIZATION

SUBCHAPTER I—OFFICERS AND ADMINISTRATION

* * * * * * *

§ 1112. Conversion or dismissal

(a) The debtor may convert a case under this chapter to a case under chapter 7 of this title unless—

(1) the debtor is not a debtor in possession;

(2) the case originally was commenced as an involuntary case under this chapter; or

(3) the case was converted to a case under this chapter other than on the debtor's request.

(b)(1) Except as provided in paragraph (2) and subsection (c), on request of a party in interest, and after notice and a hearing, the court shall convert a case under this chapter to a case under chapter 7 or dismiss a case under this chapter, whichever is in the best interests of creditors and the estate, for cause unless the court determines that the appointment under section 1104(a) of a trustee or an examiner is in the best interests of creditors and the estate.

(2) The court may not convert a case under this chapter to a case under chapter 7 or dismiss a case under this chapter if the court finds and specifically identifies unusual circumstances establishing that converting or dismissing the case is not in the best interests of creditors and the estate, and the debtor or any other party in interest establishes that—

(A) there is a reasonable likelihood that a plan will be confirmed within the timeframes established in sections 1121(e) and 1129(e) of this title, or if such sections do not apply, within a reasonable period of time; and

(B) the grounds for converting or dismissing the case include an act or omission of the debtor other than under paragraph (4)(A)—

(i) for which there exists a reasonable justification for the act or omission; and

(ii) that will be cured within a reasonable period of time fixed by the court.

(3) The court shall commence the hearing on a motion under this subsection not later than 30 days after filing of the motion, and shall decide the motion not later than 15 days after commencement of such hearing, unless the movant expressly consents to a continuance for a specific period of time or compelling circumstances prevent the court from meeting the time limits established by this paragraph.

(4) For purposes of this subsection, the term "cause" includes—

(A) substantial or continuing loss to or diminution of the estate and the absence of a reasonable likelihood of rehabilitation;

(B) gross mismanagement of the estate;

(C) failure to maintain appropriate insurance that poses a risk to the estate or to the public;

(D) unauthorized use of cash collateral substantially harmful to 1 or more creditors;

(E) failure to comply with an order of the court;

(F) unexcused failure to satisfy timely any filing or reporting requirement established by this title or by any rule applicable to a case under this chapter;

(G) failure to attend the meeting of creditors convened under section 341(a) or an examination ordered under rule 2004 of the Federal Rules of Bankruptcy Procedure without good cause shown by the debtor;

(H) failure timely to provide information or attend meetings reasonably requested by the United States trustee (or the bankruptcy administrator, if any);

(I) failure timely to pay taxes owed after the date of the order for relief or to file tax returns due after the date of the order for relief;

(J) failure to file a disclosure statement, or to file or confirm a plan, within the time fixed by this title or by order of the court;

(K) failure to pay any fees or charges required under chapter 123 of title 28;

(L) revocation of an order of confirmation under section 1144;

(M) inability to effectuate substantial consummation of a confirmed plan;

(N) material default by the debtor with respect to a confirmed plan;

(O) termination of a confirmed plan by reason of the occurrence of a condition specified in the plan; and

(P) failure of the debtor to pay any domestic support obligation that first becomes payable after the date of the filing of the petition.

(c) The court may not convert a case under this chapter to a case under chapter 7 of this title if the debtor is a farmer or a corporation that is not a moneyed, business, or commercial corporation, unless the debtor requests such conversion.

(d) The court may convert a case under this chapter to a case under chapter 12 or 13 of this title only if—

(1) the debtor requests such conversion;

(2) the debtor has not been discharged under section 1141(d) of this title; and

(3) if the debtor requests conversion to chapter 12 of this title, such conversion is equitable.

(e) Except as provided in subsections (c) and (f), the court, on request of the United States trustee, may convert a case under this chapter to a case under chapter 7 of this title or may dismiss a case under this chapter, whichever is in the best interest of creditors and the estate if the debtor in a voluntary case fails to file, within fifteen days after the filing of the petition commencing such case or such additional time as the court may allow, the information required by paragraph (1) of section 521(a), including a list containing the names and addresses of the holders of the twenty largest unsecured claims (or of all unsecured claims if there are fewer than twenty unsecured claims), and the approximate dollar amounts of each of such claims.

(f) Notwithstanding any other provision of this section, a case may not be converted to a case under another chapter of this title unless the debtor may be a debtor under such chapter.

(g) Notwithstanding section 109(b), the court may convert a case under subchapter V to a case under chapter 7 if—

(1) a transfer approved under section 1185 has been consummated;

(2) the court has ordered the appointment of a special trustee under section 1186; and

(3) the court finds, after notice and a hearing, that conversion is in the best interest of the creditors and the estate.

* * * * * * *

SUBCHAPTER II—THE PLAN

* * * * * * *

§ 1129. Confirmation of plan

(a) The court shall confirm a plan only if all of the following requirements are met:

(1) The plan complies with the applicable provisions of this title.

(2) The proponent of the plan complies with the applicable provisions of this title.

(3) The plan has been proposed in good faith and not by any means forbidden by law.

(4) Any payment made or to be made by the proponent, by the debtor, or by a person issuing securities or acquiring property under the plan, for services or for costs and expenses in or in connection with the case, or in connection with the plan and incident to the case, has been approved by, or is subject to the approval of, the court as reasonable.

(5)(A)(i) The proponent of the plan has disclosed the identity and affiliations of any individual proposed to serve, after confirmation of the plan, as a director, officer, or voting trustee of the debtor, an affiliate of the debtor participating in a joint plan with the debtor, or a successor to the debtor under the plan; and

(ii) the appointment to, or continuance in, such office of such individual, is consistent with the interests of creditors and equity security holders and with public policy; and

(B) the proponent of the plan has disclosed the identity of any insider that will be employed or retained by the reorganized debtor, and the nature of any compensation for such insider.

(6) Any governmental regulatory commission with jurisdiction, after confirmation of the plan, over the rates of the debtor has approved any rate change provided for in the plan, or such rate change is expressly conditioned on such approval.

(7) With respect to each impaired class of claims or interests—

(A) each holder of a claim or interest of such class—

(i) has accepted the plan; or

(ii) will receive or retain under the plan on account of such claim or interest property of a value, as of the effective date of the plan, that is not less than the amount that such holder would so receive or retain if the debtor were liquidated under chapter 7 of this title on such date; or

(B) if section 1111(b)(2) of this title applies to the claims of such class, each holder of a claim of such class will receive or retain under the plan on account of such claim property of a value, as of the effective date of the plan, that is not less than the value of such holder's interest in the estate's interest in the property that secures such claims.

(8) With respect to each class of claims or interests—

(A) such class has accepted the plan; or

(B) such class is not impaired under the plan.

(9) Except to the extent that the holder of a particular claim has agreed to a different treatment of such claim, the plan provides that—

(A) with respect to a claim of a kind specified in section 507(a)(2) or 507(a)(3) of this title, on the effective date of the plan, the holder of such claim will receive on account of such claim cash equal to the allowed amount of such claim;

(B) with respect to a class of claims of a kind specified in section 507(a)(1), 507(a)(4), 507(a)(5), 507(a)(6), or 507(a)(7) of this title, each holder of a claim of such class will receive—

(i) if such class has accepted the plan, deferred cash payments of a value, as of the effective date of the plan, equal to the allowed amount of such claim; or

(ii) if such class has not accepted the plan, cash on the effective date of the plan equal to the allowed amount of such claim;

(C) with respect to a claim of a kind specified in section 507(a)(8) of this title, the holder of such claim will receive on account of such claim regular installment payments in cash—

(i) of a total value, as of the effective date of the plan, equal to the allowed amount of such claim;

(ii) over a period ending not later than 5 years after the date of the order for relief under section 301, 302, or 303; and

(iii) in a manner not less favorable than the most favored nonpriority unsecured claim provided for by the plan (other than cash payments made to a class of creditors under section 1122(b)); and

(D) with respect to a secured claim which would otherwise meet the description of an unsecured claim of a governmental unit under section 507(a)(8), but for the secured status of that claim, the holder of that claim will receive on account of that claim, cash payments, in the same manner and over the same period, as prescribed in subparagraph (C).

(10) If a class of claims is impaired under the plan, at least one class of claims that is impaired under the plan has accepted the plan, determined without including any acceptance of the plan by any insider.

(11) Confirmation of the plan is not likely to be followed by the liquidation, or the need for further financial reorganization, of the debtor or any successor to the debtor under the plan, unless such liquidation or reorganization is proposed in the plan.

(12) All fees payable under section 1930 of title 28, as determined by the court at the hearing on confirmation of the plan, have been paid or the plan provides for the payment of all such fees on the effective date of the plan.

(13) The plan provides for the continuation after its effective date of payment of all retiree benefits, as that term is defined in section 1114 of this title, at the level established pursuant to subsection (e)(1)(B) or (g) of section 1114 of this title, at any time prior to confirmation of the plan, for the duration of the period the debtor has obligated itself to provide such benefits.

(14) If the debtor is required by a judicial or administrative order, or by statute, to pay a domestic support obligation, the debtor has paid all amounts payable under such order or such statute for such obligation that first become payable after the date of the filing of the petition.

(15) In a case in which the debtor is an individual and in which the holder of an allowed unsecured claim objects to the confirmation of the plan—

(A) the value, as of the effective date of the plan, of the property to be distributed under the plan on account of such claim is not less than the amount of such claim; or

(B) the value of the property to be distributed under the plan is not less than the projected disposable income of the debtor (as defined in section 1325(b)(2)) to be received during the 5-year period beginning on the date that the first payment is due under the plan, or during the period for which the plan provides payments, whichever is longer.

(16) All transfers of property under the plan shall be made in accordance with any applicable provisions of nonbankruptcy law that govern the transfer of property by a corporation or trust that is not a moneyed, business, or commercial corporation or trust.

(17) In a case under subchapter V, all payable fees, costs, and expenses of the special trustee have been paid or the plan pro-

vides for the payment of all such fees, costs, and expenses on the effective date of the plan.

(18) In a case under subchapter V, confirmation of the plan is not likely to cause serious adverse effects on financial stability in the United States.

(b)(1) Notwithstanding section 510(a) of this title, if all of the applicable requirements of subsection (a) of this section other than paragraph (8) are met with respect to a plan, the court, on request of the proponent of the plan, shall confirm the plan notwithstanding the requirements of such paragraph if the plan does not discriminate unfairly, and is fair and equitable, with respect to each class of claims or interests that is impaired under, and has not accepted, the plan.

(2) For the purpose of this subsection, the condition that a plan be fair and equitable with respect to a class includes the following requirements:

(A) With respect to a class of secured claims, the plan provides—

(i)(I) that the holders of such claims retain the liens securing such claims, whether the property subject to such liens is retained by the debtor or transferred to another entity, to the extent of the allowed amount of such claims; and

(II) that each holder of a claim of such class receive on account of such claim deferred cash payments totaling at least the allowed amount of such claim, of a value, as of the effective date of the plan, of at least the value of such holder's interest in the estate's interest in such property;

(ii) for the sale, subject to section 363(k) of this title, of any property that is subject to the liens securing such claims, free and clear of such liens, with such liens to attach to the proceeds of such sale, and the treatment of such liens on proceeds under clause (i) or (iii) of this subparagraph; or

(iii) for the realization by such holders of the indubitable equivalent of such claims.

(B) With respect to a class of unsecured claims—

(i) the plan provides that each holder of a claim of such class receive or retain on account of such claim property of a value, as of the effective date of the plan, equal to the allowed amount of such claim; or

(ii) the holder of any claim or interest that is junior to the claims of such class will not receive or retain under the plan on account of such junior claim or interest any property, except that in a case in which the debtor is an individual, the debtor may retain property included in the estate under section 1115, subject to the requirements of subsection (a)(14) of this section.

(C) With respect to a class of interests—

(i) the plan provides that each holder of an interest of such class receive or retain on account of such interest property of a value, as of the effective date of the plan, equal to the greatest of the allowed amount of any fixed liquidation preference to which such holder is entitled, any

fixed redemption price to which such holder is entitled, or the value of such interest; or

(ii) the holder of any interest that is junior to the interests of such class will not receive or retain under the plan on account of such junior interest any property.

(c) Notwithstanding subsections (a) and (b) of this section and except as provided in section 1127(b) of this title, the court may confirm only one plan, unless the order of confirmation in the case has been revoked under section 1144 of this title. If the requirements of subsections (a) and (b) of this section are met with respect to more than one plan, the court shall consider the preferences of creditors and equity security holders in determining which plan to confirm.

(d) Notwithstanding any other provision of this section, on request of a party in interest that is a governmental unit, the court may not confirm a plan if the principal purpose of the plan is the avoidance of taxes or the avoidance of the application of section 5 of the Securities Act of 1933. In any hearing under this subsection, the governmental unit has the burden of proof on the issue of avoidance.

(e) In a small business case, the court shall confirm a plan that complies with the applicable provisions of this title and that is filed in accordance with section 1121(e) not later than 45 days after the plan is filed unless the time for confirmation is extended in accordance with section 1121(e)(3).

* * * * * * *

SUBCHAPTER V—LIQUIDATION, REORGANIZATION, OR RECAPITALIZATION OF A COVERED FINANCIAL CORPORATION

§ 1181. Inapplicability of other sections

Sections 303 and 321(c) do not apply in a case under this subchapter concerning a covered financial corporation. Section 365 does not apply to a transfer under section 1185, 1187, or 1188.

§ 1182. Definitions for this subchapter

In this subchapter, the following definitions shall apply:

(1) The term "Board" means the Board of Governors of the Federal Reserve System.

(2) The term "bridge company" means a newly formed corporation to which property of the estate may be transferred under section 1185(a) and the equity securities of which may be transferred to a special trustee under section 1186(a).

(3) The term "capital structure debt" means all unsecured debt of the debtor for borrowed money for which the debtor is the primary obligor, other than a qualified financial contract and other than debt secured by a lien on property of the estate that is to be transferred to a bridge company pursuant to an order of the court under section 1185(a).

(4) The term "contractual right" means a contractual right of a kind defined in section 555, 556, 559, 560, or 561.

(5) The term "qualified financial contract" means any contract of a kind defined in paragraph (25), (38A), (47), or (53B)

of section 101, section 741(7), or paragraph (4), (5), (11), or (13) of section 761.

(6) The term "special trustee" means the trustee of a trust formed under section 1186(a)(1).

§ 1183. Commencement of a case concerning a covered financial corporation

(a) A case under this subchapter concerning a covered financial corporation may be commenced by the filing of a petition with the court by the debtor under section 301 only if the debtor states to the best of its knowledge under penalty of perjury in the petition that it is a covered financial corporation.

(b) The commencement of a case under subsection (a) constitutes an order for relief under this subchapter.

(c) The members of the board of directors (or body performing similar functions) of a covered financial company shall have no liability to shareholders, creditors, or other parties in interest for a good faith filing of a petition to commence a case under this subchapter, or for any reasonable action taken in good faith in contemplation of or in connection with such a petition or a transfer under section 1185 or section 1186, whether prior to or after commencement of the case.

(d) Counsel to the debtor shall provide, to the greatest extent practicable without disclosing the identity of the potential debtor, sufficient confidential notice to the chief judge of the court of appeals for the circuit embracing the district in which such counsel intends to file a petition to commence a case under this subchapter regarding the potential commencement of such case. The chief judge of such court shall randomly assign to preside over such case a bankruptcy judge selected from among the bankruptcy judges designated by the Chief Justice of the United States under section 298 of title 28.

§ 1184. Regulators

The Board, the Securities Exchange Commission, the Office of the Comptroller of the Currency of the Department of the Treasury, the Commodity Futures Trading Commission, and the Federal Deposit Insurance Corporation may raise and may appear and be heard on any issue in any case or proceeding under this subchapter.

§ 1185. Special transfer of property of the estate

(a) On request of the trustee, and after notice and a hearing that shall occur not less than 24 hours after the order for relief, the court may order a transfer under this section of property of the estate, and the assignment of executory contracts, unexpired leases, and qualified financial contracts of the debtor, to a bridge company. Upon the entry of an order approving such transfer, any property transferred, and any executory contracts, unexpired leases, and qualified financial contracts assigned under such order shall no longer be property of the estate. Except as provided under this section, the provisions of section 363 shall apply to a transfer and assignment under this section.

(b) Unless the court orders otherwise, notice of a request for an order under subsection (a) shall consist of electronic or telephonic notice of not less than 24 hours to—

(1) the debtor;

(2) the holders of the 20 largest secured claims against the debtor;

(3) the holders of the 20 largest unsecured claims against the debtor;

(4) counterparties to any debt, executory contract, unexpired lease, and qualified financial contract requested to be transferred under this section;

(5) the Board;

(6) the Federal Deposit Insurance Corporation;

(7) the Secretary of the Treasury and the Office of the Comptroller of the Currency of the Treasury;

(8) the Commodity Futures Trading Commission;

(9) the Securities and Exchange Commission;

(10) the United States trustee or bankruptcy administrator; and

(11) each primary financial regulatory agency, as defined in section 2(12) of the Dodd-Frank Wall Street Reform and Consumer Protection Act, with respect to any affiliate the equity securities of which are proposed to be transferred under this section.

(c) The court may not order a transfer under this section unless the court determines, based upon a preponderance of the evidence, that—

(1) the transfer under this section is necessary to prevent serious adverse effects on financial stability in the United States;

(2) the transfer does not provide for the assumption of any capital structure debt by the bridge company;

(3) the transfer does not provide for the transfer to the bridge company of any property of the estate that is subject to a lien securing a debt, executory contract, unexpired lease or agreement (including a qualified financial contract) of the debtor unless—

(A)(i) the bridge company assumes such debt, executory contract, unexpired lease or agreement (including a qualified financial contract), including any claims arising in respect thereof that would not be allowed secured claims under section 506(a)(1) and after giving effect to such transfer, such property remains subject to the lien securing such debt, executory contract, unexpired lease or agreement (including a qualified financial contract); and

(ii) the court has determined that assumption of such debt, executory contract, unexpired lease or agreement (including a qualified financial contract) by the bridge company is in the best interests of the estate; or

(B) such property is being transferred to the bridge company in accordance with the provisions of section 363;

(4) the transfer does not provide for the assumption by the bridge company of any debt, executory contract, unexpired lease or agreement (including a qualified financial contract) of the debtor secured by a lien on property of the estate unless the transfer provides for such property to be transferred to the bridge company in accordance with paragraph (3)(A) of this subsection;

(5) the transfer does not provide for the transfer of the equity of the debtor;

(6) the trustee has demonstrated that the bridge company is not likely to fail to meet the obligations of any debt, executory contract, qualified financial contract, or unexpired lease assumed and assigned to the bridge company;

(7) the transfer provides for the transfer to a special trustee all of the equity securities in the bridge company and appointment of a special trustee in accordance with section 1186;

(8) after giving effect to the transfer, adequate provision has been made for the fees, costs, and expenses of the estate and special trustee; and

(9) the bridge company will have governing documents, and initial directors and senior officers, that are in the best interest of creditors and the estate.

(d) Immediately before a transfer under this section, the bridge company that is the recipient of the transfer shall—

(1) not have any property, executory contracts, unexpired leases, qualified financial contracts, or debts, other than any property acquired or executory contracts, unexpired leases, or debts assumed when acting as a transferee of a transfer under this section; and

(2) have equity securities that are property of the estate, which may be sold or distributed in accordance with this title.

§ 1186. Special trustee

(a)(1) An order approving a transfer under section 1185 shall require the trustee to transfer to a qualified and independent special trustee, who is appointed by the court, all of the equity securities in the bridge company that is the recipient of a transfer under section 1185 to hold in trust for the sole benefit of the estate, subject to satisfaction of the special trustee's fees, costs, and expenses. The trust of which the special trustee is the trustee shall be a newly formed trust governed by a trust agreement approved by the court as in the best interests of the estate, and shall exist for the sole purpose of holding and administering, and shall be permitted to dispose of, the equity securities of the bridge company in accordance with the trust agreement.

(2) In connection with the hearing to approve a transfer under section 1185, the trustee shall confirm to the court that the Board has been consulted regarding the identity of the proposed special trustee and advise the court of the results of such consultation.

(b) The trust agreement governing the trust shall provide—

(1) for the payment of the fees, costs, expenses, and indemnities of the special trustee from the assets of the debtor's estate;

(2) that the special trustee provide—

(A) quarterly reporting to the estate, which shall be filed with the court; and

(B) information about the bridge company reasonably requested by a party in interest to prepare a disclosure statement for a plan providing for distribution of any securities of the bridge company if such information is necessary to prepare such disclosure statement;

(3) that for as long as the equity securities of the bridge company are held by the trust, the special trustee shall file a notice with the court in connection with—

(A) any change in a director or senior officer of the bridge company;

(B) any modification to the governing documents of the bridge company; and

(C) any material corporate action of the bridge company, including—

(i) recapitalization;

(ii) a material borrowing;

(iii) termination of an intercompany debt or guarantee;

(iv) a transfer of a substantial portion of the assets of the bridge company; or

(v) the issuance or sale of any securities of the bridge company;

(4) that any sale of any equity securities of the bridge company shall not be consummated until the special trustee consults with the Federal Deposit Insurance Corporation and the Board regarding such sale and discloses the results of such consultation with the court;

(5) that, subject to reserves for payments permitted under paragraph (1) provided for in the trust agreement, the proceeds of the sale of any equity securities of the bridge company by the special trustee be held in trust for the benefit of or transferred to the estate;

(6) the process and guidelines for the replacement of the special trustee; and

(7) that the property held in trust by the special trustee is subject to distribution in accordance with subsection (c).

(c)(1) The special trustee shall distribute the assets held in trust—

(A) if the court confirms a plan in the case, in accordance with the plan on the effective date of the plan; or

(B) if the case is converted to a case under chapter 7, as ordered by the court.

(2) As soon as practicable after a final distribution under paragraph (1), the office of the special trustee shall terminate, except as may be necessary to wind up and conclude the business and financial affairs of the trust.

(d) After a transfer to the special trustee under this section, the special trustee shall be subject only to applicable nonbankruptcy law, and the actions and conduct of the special trustee shall no longer be subject to approval by the court in the case under this subchapter.

§ 1187. Temporary and supplemental automatic stay; assumed debt

(a)(1) A petition filed under section 1183 operates as a stay, applicable to all entities, of the termination, acceleration, or modification of any debt, contract, lease, or agreement of the kind described in paragraph (2), or of any right or obligation under any such debt, contract, lease, or agreement, solely because of—

(A) a default by the debtor under any such debt, contract, lease, or agreement; or

(B) a provision in such debt, contract, lease, or agreement, or in applicable nonbankruptcy law, that is conditioned on—

(i) the insolvency or financial condition of the debtor at any time before the closing of the case;

(ii) the commencement of a case under this title concerning the debtor;

(iii) the appointment of or taking possession by a trustee in a case under this title concerning the debtor or by a custodian before the commencement of the case; or

(iv) a credit rating agency rating, or absence or withdrawal of a credit rating agency rating—

(I) of the debtor at any time after the commencement of the case;

(II) of an affiliate during the period from the commencement of the case until 48 hours after such order is entered;

(III) of the bridge company while the trustee or the special trustee is a direct or indirect beneficial holder of more than 50 percent of the equity securities of—

(aa) the bridge company; or

(bb) the affiliate, if all of the direct or indirect interests in the affiliate that are property of the estate are transferred under section 1185; or

(IV) of an affiliate while the trustee or the special trustee is a direct or indirect beneficial holder of more than 50 percent of the equity securities of—

(aa) the bridge company; or

(bb) the affiliate, if all of the direct or indirect interests in the affiliate that are property of the estate are transferred under section 1185.

(2) A debt, contract, lease, or agreement described in this paragraph is—

(A) any debt (other than capital structure debt), executory contract, or unexpired lease of the debtor (other than a qualified financial contract);

(B) any agreement under which the debtor issued or is obligated for debt (other than capital structure debt);

(C) any debt, executory contract, or unexpired lease of an affiliate (other than a qualified financial contract); or

(D) any agreement under which an affiliate issued or is obligated for debt.

(3) The stay under this subsection terminates—

(A) for the benefit of the debtor, upon the earliest of—

(i) 48 hours after the commencement of the case;

(ii) assumption of the debt, contract, lease, or agreement by the bridge company under an order authorizing a transfer under section 1185;

(iii) a final order of the court denying the request for a transfer under section 1185; or

(iv) the time the case is dismissed; and

(B) for the benefit of an affiliate, upon the earliest of—

(i) the entry of an order authorizing a transfer under section 1185 in which the direct or indirect interests in the affiliate that are property of the estate are not transferred under section 1185;

(ii) a final order by the court denying the request for a transfer under section 1185;

(iii) 48 hours after the commencement of the case if the court has not ordered a transfer under section 1185; or

(iv) the time the case is dismissed.

(4) Subsections (d), (e), (f), and (g) of section 362 apply to a stay under this subsection.

(b) A debt, executory contract (other than a qualified financial contract), or unexpired lease of the debtor, or an agreement under which the debtor has issued or is obligated for any debt, may be assumed by a bridge company in a transfer under section 1185 notwithstanding any provision in an agreement or in applicable nonbankruptcy law that—

(1) prohibits, restricts, or conditions the assignment of the debt, contract, lease, or agreement; or

(2) accelerates, terminates, or modifies, or permits a party other than the debtor to terminate or modify, the debt, contract, lease, or agreement on account of—

(A) the assignment of the debt, contract, lease, or agreement; or

(B) a change in control of any party to the debt, contract, lease, or agreement.

(c)(1) A debt, contract, lease, or agreement of the kind described in subparagraph (A) or (B) of subsection (a)(2) may not be accelerated, terminated, or modified, and any right or obligation under such debt, contract, lease, or agreement may not be accelerated, terminated, or modified, as to the bridge company solely because of a provision in the debt, contract, lease, or agreement or in applicable nonbankruptcy law—

(A) of the kind described in subsection (a)(1)(B) as applied to the debtor;

(B) that prohibits, restricts, or conditions the assignment of the debt, contract, lease, or agreement; or

(C) that accelerates, terminates, or modifies, or permits a party other than the debtor to terminate or modify, the debt, contract, lease or agreement on account of—

(i) the assignment of the debt, contract, lease, or agreement; or

(ii) a change in control of any party to the debt, contract, lease, or agreement.

(2) If there is a default by the debtor under a provision other than the kind described in paragraph (1) in a debt, contract, lease or agreement of the kind described in subparagraph (A) or (B) of subsection (a)(2), the bridge company may assume such debt, contract, lease, or agreement only if the bridge company—

(A) shall cure the default;

(B) compensates, or provides adequate assurance in connection with a transfer under section 1185 that the bridge company will promptly compensate, a party other than the debtor to the debt, contract, lease, or agreement, for any actual pecuniary loss to the party resulting from the default; and

(C) provides adequate assurance in connection with a transfer under section 1185 of future performance under the debt, contract, lease, or agreement, as determined by the court under section 1185(c)(4).

§ 1188. Treatment of qualified financial contracts and affiliate contracts

(a) Notwithstanding sections 362(b)(6), 362(b)(7), 362(b)(17), 362(b)(27), 362(o), 555, 556, 559, 560, and 561, a petition filed under section 1183 operates as a stay, during the period specified in section 1187(a)(3)(A), applicable to all entities, of the exercise of a contractual right—

(1) to cause the modification, liquidation, termination, or acceleration of a qualified financial contract of the debtor or an affiliate;

(2) to offset or net out any termination value, payment amount, or other transfer obligation arising under or in connection with a qualified financial contract of the debtor or an affiliate; or

(3) under any security agreement or arrangement or other credit enhancement forming a part of or related to a qualified financial contract of the debtor or an affiliate.

(b)(1) During the period specified in section 1187(a)(3)(A), the trustee or the affiliate shall perform all payment and delivery obligations under such qualified financial contract of the debtor or the affiliate, as the case may be, that become due after the commencement of the case. The stay provided under subsection (a) terminates as to a qualified financial contract of the debtor or an affiliate immediately upon the failure of the trustee or the affiliate, as the case may be, to perform any such obligation during such period.

(2) Any failure by a counterparty to any qualified financial contract of the debtor or any affiliate to perform any payment or delivery obligation under such qualified financial contract, including during the pendency of the stay provided under subsection (a), shall constitute a breach of such qualified financial contract by the counterparty.

(c) Subject to the court's approval, a qualified financial contract between an entity and the debtor may be assigned to or assumed by the bridge company in a transfer under, and in accordance with, section 1185 if and only if—

(1) all qualified financial contracts between the entity and the debtor are assigned to and assumed by the bridge company in the transfer under section 1185;

(2) all claims of the entity against the debtor in respect of any qualified financial contract between the entity and the debtor (other than any claim that, under the terms of the qualified financial contract, is subordinated to the claims of general unsecured creditors) are assigned to and assumed by the bridge company;

(3) all claims of the debtor against the entity under any qualified financial contract between the entity and the debtor are assigned to and assumed by the bridge company; and

(4) all property securing or any other credit enhancement furnished by the debtor for any qualified financial contract described in paragraph (1) or any claim described in paragraph (2) or (3) under any qualified financial contract between the entity and the debtor is assigned to and assumed by the bridge company.

(d) Notwithstanding any provision of a qualified financial contract or of applicable nonbankruptcy law, a qualified financial con-

tract of the debtor that is assumed or assigned in a transfer under section 1185 may not be accelerated, terminated, or modified, after the entry of the order approving a transfer under section 1185, and any right or obligation under the qualified financial contract may not be accelerated, terminated, or modified, after the entry of the order approving a transfer under section 1185 solely because of a condition described in section 1187(c)(1), other than a condition of the kind specified in section 1187(b) that occurs after property of the estate no longer includes a direct beneficial interest or an indirect beneficial interest through the special trustee, in more than 50 percent of the equity securities of the bridge company.

(e) Notwithstanding any provision of any agreement or in applicable nonbankruptcy law, an agreement of an affiliate (including an executory contract, an unexpired lease, qualified financial contract, or an agreement under which the affiliate issued or is obligated for debt) and any right or obligation under such agreement may not be accelerated, terminated, or modified, solely because of a condition described in section 1187(c)(1), other than a condition of the kind specified in section 1187(b) that occurs after the bridge company is no longer a direct or indirect beneficial holder of more than 50 percent of the equity securities of the affiliate, at any time after the commencement of the case if—

(1) all direct or indirect interests in the affiliate that are property of the estate are transferred under section 1185 to the bridge company within the period specified in subsection (a);

(2) the bridge company assumes—

(A) any guarantee or other credit enhancement issued by the debtor relating to the agreement of the affiliate; and

(B) any obligations in respect of rights of setoff, netting arrangement, or debt of the debtor that directly arises out of or directly relates to the guarantee or credit enhancement; and

(3) any property of the estate that directly serves as collateral for the guarantee or credit enhancement is transferred to the bridge company.

§ 1189. Licenses, permits, and registrations

(a) Notwithstanding any otherwise applicable nonbankruptcy law, if a request is made under section 1185 for a transfer of property of the estate, any Federal, State, or local license, permit, or registration that the debtor or an affiliate had immediately before the commencement of the case and that is proposed to be transferred under section 1185 may not be accelerated, terminated, or modified at any time after the request solely on account of—

(1) the insolvency or financial condition of the debtor at any time before the closing of the case;

(2) the commencement of a case under this title concerning the debtor;

(3) the appointment of or taking possession by a trustee in a case under this title concerning the debtor or by a custodian before the commencement of the case; or

(4) a transfer under section 1185.

(b) Notwithstanding any otherwise applicable nonbankruptcy law, any Federal, State, or local license, permit, or registration that the debtor had immediately before the commencement of the case that

is included in a transfer under section 1185 shall be valid and all rights and obligations thereunder shall vest in the bridge company.

§ 1190. Exemption from securities laws

For purposes of section 1145, a security of the bridge company shall be deemed to be a security of a successor to the debtor under a plan if the court approves the disclosure statement for the plan as providing adequate information (as defined in section 1125(a)) about the bridge company and the security.

§ 1191. Inapplicability of certain avoiding powers

A transfer made or an obligation incurred by the debtor to an affiliate prior to or after the commencement of the case, including any obligation released by the debtor or the estate to or for the benefit of an affiliate, in contemplation of or in connection with a transfer under section 1185 is not avoidable under section 544, 547, 548(a)(1)(B), or 549, or under any similar nonbankruptcy law.

§ 1192. Consideration of financial stability

The court may consider the effect that any decision in connection with this subchapter may have on financial stability in the United States.

* * * * * * *

TITLE 28, UNITED STATES CODE

PART I—ORGANIZATION OF COURTS

* * * * * * *

CHAPTER 13—ASSIGNMENT OF JUDGES TO OTHER COURTS

Sec.
291. Circuit judges.
* * * * * * *
298. Judge for a case under subchapter V of chapter 11 of title 11.
* * * * * * *

§ 298. Judge for a case under subchapter V of chapter 11 of title 11

(a)(1) Notwithstanding section 295, the Chief Justice of the United States shall designate not fewer than 10 bankruptcy judges to be available to hear a case under subchapter V of chapter 11 of title 11. Bankruptcy judges may request to be considered by the Chief Justice of the United States for such designation.

(2) Notwithstanding section 155, a case under subchapter V of chapter 11 of title 11 shall be heard under section 157 by a bankruptcy judge designated under paragraph (1), who shall be randomly assigned to hear such case by the chief judge of the court of appeals for the circuit embracing the district in which the case is pending. To the greatest extent practicable, the approvals required under section 155 should be obtained.

(3) If the bankruptcy judge assigned to hear a case under paragraph (2) is not assigned to the district in which the case is pending, the bankruptcy judge shall be temporarily assigned to the district.

(b) A case under subchapter V of chapter 11 of title 11, and all proceedings in the case, shall take place in the district in which the case is pending.

(c) In this section, the term "covered financial corporation" has the meaning given that term in section 101(9A) of title 11.

* * * * * * *

PART IV—JURISDICTION AND VENUE

* * * * * * *

CHAPTER 85—DISTRICT COURTS; JURISDICTION

* * * * * * *

§ 1334. Bankruptcy cases and proceedings

(a) Except as provided in subsection (b) of this section, the district courts shall have original and exclusive jurisdiction of all cases under title 11.

(b) Except as provided in subsection (e)(2), and notwithstanding any Act of Congress that confers exclusive jurisdiction on a court or courts other than the district courts, the district courts shall have original but not exclusive jurisdiction of all civil proceedings arising under title 11, or arising in or related to cases under title 11.

(c)(1) Except with respect to a case under chapter 15 of title 11, nothing in this section prevents a district court in the interest of justice, or in the interest of comity with State courts or respect for State law, from abstaining from hearing a particular proceeding arising under title 11 or arising in or related to a case under title 11.

(2) Upon timely motion of a party in a proceeding based upon a State law claim or State law cause of action, related to a case under title 11 but not arising under title 11 or arising in a case under title 11, with respect to which an action could not have been commenced in a court of the United States absent jurisdiction under this section, the district court shall abstain from hearing such proceeding if an action is commenced, and can be timely adjudicated, in a State forum of appropriate jurisdiction.

(d) Any decision to abstain or not to abstain made under subsection (c) (other than a decision not to abstain in a proceeding described in subsection (c)(2)) is not reviewable by appeal or otherwise by the court of appeals under section 158(d), 1291, or 1292 of this title or by the Supreme Court of the United States under section 1254 of this title. Subsection (c) and this subsection shall not be construed to limit the applicability of the stay provided for by section 362 of title 11, United States Code, as such section applies to an action affecting the property of the estate in bankruptcy.

(e) The district court in which a case under title 11 is commenced or is pending shall have exclusive jurisdiction—

(1) of all the property, wherever located, of the debtor as of the commencement of such case, and of property of the estate; and

(2) over all claims or causes of action that involve construction of section 327 of title 11, United States Code, or rules relating to disclosure requirements under section 327.

(f) This section does not grant jurisdiction to the district court after a transfer pursuant to an order under section 1185 of title 11 of any proceeding related to a special trustee appointed, or to a bridge company formed, in connection with a case under subchapter V of chapter 11 of title 11.

* * * * * * *

○